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David V. Lamm

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Prepared for: Chief of Naval Research
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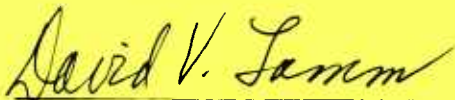
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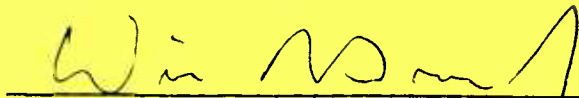
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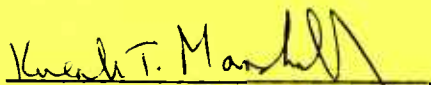
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AN
ANALYSIS OF REASONS COMPANIES
REFUSE TO PARTICIPATE IN DEFENSE BUSINESS

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March 1987

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ABSTRACT

This study attempted to identify the extent to which firms have taken the position of refusing to participate in Department of Defense business and the principal reasons for this refusal. A survey questionnaire was sent to companies identified as refusing DOD business as well as a random sample of companies selected from various industries. An analysis of the responses indicates that approximately 20% of the surveyed firms refuse DOD business due to such reasons as burdensome paperwork, Government bidding methods, more attractive commercial ventures and Government attitudes. The study analyzes examples of each of these reasons as well as twenty two additional problem areas. Implications of small versus large business and prime contractor versus subcontractor views are examined.

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TECHNICAL REPORT

Chapter I

INTRODUCTION

This study focused on those firms which refuse to do business with the Department of Defense as either a prime contractor or subcontractor. The implications for the Defense industrial base of knowing the position taken by these firms is significant. The study attempted to determine if there is a problem concerning participation in Defense business and, if so, to what extent the problem exists.

The Defense industrial base has been plagued with several problems over the last few years including aging equipment, diminishing sources, lengthening lead times, long lines of supply and reliance on foreign sources, to name only a few.¹ The Defense industrial base is extremely important from the standpoint of maintaining competitive sources of supply for goods and services as well as the more critical need for the capability to increase production dramatically during surge and mobilization demands.² To the extent that commercial firms are

¹U.S. Congress, House Committee on Armed Services, "The Ailing Defense Industrial Base: Unready for Crisis," report of the Defense Industrial Base Panel, Washington, D.C., December 1980.

²Mobilization expands the active armed forces by organizing or activating additional troops to respond to requirements that exceed those of peacetime and by activating all the national resources needed to sustain such forces in a general war; it may occur in stages, full mobilization for a limited war, and total mobilization for a total war. Surge is a condition in which the active armed forces rapidly expand peacetime facilities,

unwilling to participate in DOD business, the capability to increase production on short demand might be seriously affected. Do such companies exist, under what circumstances have such companies taken this position and can changes be made to encourage much needed participation by a variety of commercial firms?

It has been hypothesized that the industrial base is relatively healthy at the prime contractor level, particularly regarding large defense firms. However, this health rapidly deteriorates at the subcontractor levels, principally when these subcontractors are small businesses.³ To what extent do the firms which refuse Defense business affect the degree of subcontractor level of health and what are the principal reasons companies have selected this posture?

equipment, and priorities for obtaining materials, components, and other resources.

³Baumbusch, Geneese, Peacetime Adequacy of the Lower Tiers of the Defense Industrial Base, Santa Monica, California, Rand Corporation, November 1977.

Chapter II

METHODOLOGY

This study was accomplished through a survey questionnaire and a series of interviews. The first step was to identify those firms which have taken the position of refusing DOD business. The following actions were taken to identify such firms:

- o letters were sent to both Defense Contractors and to DOD buying offices asking for the names and addresses of firms which were known or expected to be refusing DOD business
- o interviews were conducted with selected Navy buying offices and Defense contractors to determine which firms may fit this category

The second step was to send questionnaires to the following types of firms:

- o companies involved in Armed Services Board of Contract Appeals (ASBCA) cases or Court of Claims cases during 1985
- o construction firms
- o ship repair companies
- o tool and die manufacturers
- o automated data processing equipment firms
- o firms identified by Government buying offices and Defense contractors as refusing DOD business
- o bidders' lists from selected Navy Field Contracting Offices
- o electronics firms

The third step was to conduct in-depth interviews with selected firms.

Appendixes A and B contain sample letters sent to firms and DOD buying organizations, respectively, soliciting the names and addresses of firms to whom the questionnaire (Appendix C) could be mailed. A total of 138 letters to firms and industry associations and 107 letters to DOD buying organizations were mailed.

Table 2.1 identifies the breakdown concerning the number of letter requests sent to defense contractors, industry associations and DOD buying offices soliciting information concerning prime contractors and subcontractors unwilling to accept DOD contracts.

TABLE 2.1

LETTERS MAILED TO DEFENSE CONTRACTORS,
INDUSTRY ASSOCIATIONS AND DOD BUYING
OFFICES REQUESTING INFORMATION CONCERNING
COMPANIES UNWILLING TO PARTICIPATE IN
DEFENSE CONTRACTS

<u>DEFENSE</u> <u>CONTRACTORS</u>	<u>INDUSTRY</u> <u>ASSOCIATIONS</u>	<u>DOD BUYING</u> <u>OFFICES</u>	<u>TOTAL</u>
108	30	107	245

Letters were mailed to the following:

Contractors

- o twenty firms selected at random from among members of the American Defense Preparedness Association (ADPA) as listed in the May 1986 issue of National Defense.
- o eighty-eight firms listed in the DOD publication Small Business Subcontracting Directory

Industry Associations

- o ten firms from among members of the Motor Vehicle Management Association (MVMA) selected by officials of the Association

- o twenty companies from among members of the Aerospace Industries of America (AIA) selected by officials of the Association

DOD Buying Offices

- o twenty-two buying offices selected at random from the Navy Field Contracting System (NFCS)
- o forty-two offices of the Army Corps of Engineers
- o seven heads of contracting in the six Defense Logistics Agency Supply Centers
- o twenty-seven Navy competition advocates
- o nine heads of contracting from the Army Materiel Command (AMC)

A total of 133 contractors and buying organizations of the 245 solicited returned the enclosed form with a response for a return rate of 54.3%.

Table 2.1A summarizes the responses received from DOD buying offices and defense contractors concerning firms unwilling to accept DOD business at either the prime contractor or subcontractor level. From the beginning, the researcher believed that buying offices and contractors would not wish to be identified as sources of company names for this project. Interestingly, of the 133 responses to the 245 requests, only 27 (20.3%) failed to identify themselves. The remainder of the respondents (106) clearly identified themselves by company or Government organization together with an address, phone number and point of contact. The anonymity afforded these organizations was used by far fewer individuals than anticipated. Table 2.1A

TABLE 2.1A

RESPONSES FROM DEFENSE CONTRACTORS AND
DOD BUYING OFFICES CONCERNING COMPANIES
BELIEVED TO BE UNWILLING TO PARTICIPATE
IN DEFENSE CONTRACTS

	<u>DEFENSE CONTRACTORS</u>			<u>DOD BUYING ORGANIZATIONS</u>			
	<u>IDENTIFIED UNWILLING COMPANIES</u>	<u>UNAWARE OF UNWILLING COMPANIES</u>	<u>TOTALS</u>	<u>IDENTIFIED UNWILLING COMPANIES</u>	<u>UNAWARE OF UNWILLING COMPANIES</u>	<u>TOTALS</u>	<u>GRAND TOTALS</u>
ID ¹	5	42	47	15	44	59	106
NO ID ²	<u>2</u>	<u>14</u>	<u>16</u>	<u>3</u>	<u>8</u>	<u>11</u>	<u>27</u>
TOTALS	7	56	63	18	52	70	133

¹Number of firms and DOD buying organizations which identified themselves in their responses

²Number of firms and DOD buying organizations which did not identify themselves in their responses

also indicates that only 7 of 63 defense contractors and 18 of 70 DOD buying offices were able to identify companies which they knew didn't want DOD business. These 25 (18.8%) respondents reported a total of 82 companies as targets for the questionnaire. This statistic alone is significant because it relates that over 81% of those involved with prime contractors and subcontractors have not experienced a refusal to participate in DOD business. In reviewing explanations from respondents regarding the failure to identify even a single firm, several variations on the conditional contracting approach were revealed. This approach basically consists of a position taken by a potential supplier that the customer's business is acceptable but with certain conditions, e.g., a modification to stringent technical requirements, relief from extensive reporting requirements, use of supplier's terms and conditions, or future work will be considered but the instant requirements cannot be bid. Table 2.1A begins to exhibit a pattern of understanding. Although one hears the problem from several quarters that loss of suppliers will result from whatever reason, when put to the test of actually identifying a hard case of refusal, many "examples" begin to disappear. This particular part of the research was directed at honing in on that population of suppliers, however small, and ascertaining exactly what has motivated them to take their position. In trying to establish who these firms were, it was decided that those organizations who tried to get participation unsuccessfully, particularly for critical items or

at critical times, would be most aware of their existence. Table 2.1A reflects the success of that venture.

Table 2.2 presents the total number of firms selected to receive the questionnaire as a result of the letters in Appendixes A and B.

TABLE 2.2

NUMBER OF FIRMS SELECTED TO
RECEIVE QUESTIONNAIRE AS A RESULT
OF REQUEST TO DEFENSE CONTRACTORS
AND DOD BUYING ORGANIZATIONS FOR
UNWILLING FIRMS

DEFENSE
CONTRACTORS

18

DOD BUYING
ORGANIZATIONS

64

Table 2.3 displays the number of questionnaires mailed and received. Over 1,300 questionnaires were mailed with a cover letter addressed to the president or other principal officer in the firm explaining the project. Four hundred twenty seven questionnaires (32.4% response rate) were received and analyzed in this report. An additional ten questionnaires were received too late to be incorporated into the analysis.

The questionnaire attempted to determine several issues concerning participation in DOD business and reasons for not wanting DOD business. Appendix D contains a breakdown of the types of companies to whom questionnaires were mailed. Appendix E is a glossary of abbreviations and acronyms.

Questions 1 through 6 focused on the type, size and location of firms responding.

Question 1 asked for the primary product or service in which firms are engaged and the primary Standard Industrial Classification (SIC) Codes. If a firm did not include its SIC code, a determination of the applicable code was made from the firm's primary product or service. Table 2.4 presents responses to Question 1.

Questions 2 and 3 attempted to identify the size of firms responding. Table 2.5 indicates a breakdown of the number of personnel employed by the firm. Table 2.6 indicates the number of employees involved with respondents and affiliated companies.

Question 4 sought to determine the type of firm involved in the survey. Table 2.7 indicates how respondents categorized themselves. Because a single firm could provide multiple answers, Table 6 reflects the composite percentages provided for each category and does not represent numbers of firms.

Question 5 asked for the location of the customer base as follows: local, regional, national and foreign. Table 2.8 shows the extent of responses to this question.

Question 6 requested the approximate annual sales volume of the company. Table 2.9 displays responses to this question.

The remainder of the questions are analyzed in Chapter IV.

TABLE 2.3

Questionnaires Mailed/Returned

	<u>Mailed</u>	<u>Returned</u>	<u>%Returned</u>
Version #1	96	41	42.7%
Version #2	760	227	29.9%
Version #3	231	70	30.3%
Version #4	230	89	38.7%
Total	<u>1,317</u>	<u>427</u>	<u>32.4%</u>

TABLE 2.4

PRIMARY PRODUCT/SERVICE AND
STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODE

<u>Industrial Classification Number*</u>	<u>Classification Description</u>	<u>Number of Firms</u>	<u>Percentage</u>
15	General Building Contractors	1	0.2
16	Heavy Construction Contractors	1	0.2
17	Special Trade Contractors	5	1.2
20	Food and Kindred Products	1	0.2
22	Textile Mill Products	1	0.2
25	Furniture and Fixtures	2	0.5
26	Paper and Allied Products	1	0.2
27	Printing and Publishing	3	0.7
28	Chemicals and Allied Products	4	0.9
30	Rubber and Miscellaneous Plastics Products	8	1.9
31	Leather and Leather Products	1	0.2
32	Stone, Clay, and Glass Products	1	0.2
33	Primary Metal Industries	6	1.4
34	Fabricated Metal Products	36	8.4
35	Machinery, Except Electrical	172	40.3
36	Electric and Electronic Equipment	75	17.6
37	Transportation Equipment	34	8.0
38	Instruments and Related Products	14	3.3
42	Trucking and Warehouse	1	0.2
47	Transportation Services	1	0.2
48	Communication	1	0.2

Industrial Classification Number*	Classification Description	Number of Firms	Percentage
50	Wholesale Trade-Durable Goods	13	3.0
51	Wholesale Trade-Nondurable Goods	1	0.2
53	General Merchandise Stores	1	0.2
54	Food Stores	1	0.2
59	Miscellaneous Retail	3	0.7
61	Credit Agencies Other Than Banks	1	0.2
63	Insurance Carriers	1	0.2
65	Real Estate	1	0.2
73	Business Services	10	2.3
75	Auto Repair, Services, and Garages	1	0.2
76	Miscellaneous Repair Services	3	0.7
80	Health Services	1	0.2
81	Legal Services	1	0.2
86	Membership Organizations	1	0.2
89	Miscellaneous Services	9	2.1
No Answer		<u>10</u>	<u>2.3</u>
Total		427	100.0**

* Obtained from Standard Industrial Classification Manual, U.S. Government Printing Office, Washington, D.C., 1972.

** Does not add due to rounding.

TABLE 2.5

NUMBER OF EMPLOYEES		
<u>EMPLOYEES</u>	<u>NUMBER OF COMPANIES</u>	<u>PERCENT</u>
1-25	163	38.2
26-50	89	20.8
51-100	53	12.4
101-250	64	15.0
251-500	24	5.6
501-1000	9	2.1
>1000	19	4.4
NO ANSWER	<u>6</u>	<u>1.4</u>
Total	427	100.0*

* Does not add due to rounding.

TABLE 2.6
NUMBER OF EMPLOYEES
THROUGH AFFILIATION WITH OTHER COMPANIES

<u>EMPLOYEES</u>	<u>NUMBER OF COMPANIES</u>	<u>PERCENT</u>
1-25	3	3.2
26-50	12	12.9
51-100	13	14.0
101-250	17	18.3
251-500	7	7.5
501-1000	6	6.5
>1000	31	33.3
NO ANSWER	<u>4</u>	<u>4.3</u>
Total	93	100.0

TABLE 2.7

PERCENTAGE OF SALES
BY NATURE OF WORK

<u>NATURE OF WORK</u>	<u>PERCENTAGE OF SALES</u>
1. Manufacturer of proprietary products	29.4
2. Contract manufacturer for others (job shop)	48.8
3. Contract engineering and research firm	4.4
4. Wholesale distributor	7.9
5. Retailer	3.2
6. Other	<u>6.7</u>
	100.0*

TABLE 2.8

PERCENTAGE OF SALES ACCORDING
TO CUSTOMER LOCATION

<u>CUSTOMER LOCATION</u>	<u>PERCENTAGE OF SALES</u>
1. Local (within 50 miles)	37.7
2. Regional (outside local area but within region, such as Northeast, Southwest)	23.8
3. National (outside region but within U.S.)	33.3
4. Foreign (outside U.S.)	<u>4.6</u>
	100.0*

*Does not add due to rounding.

TABLE 2.9

APPROXIMATE CURRENT
ANNUAL SALES VOLUME

<u>SALES</u>	<u>NUMBER OF COMPANIES</u>	<u>PERCENTAGE</u>
1. Under \$100,000	14	3.3%
2. \$100,000 - \$500,000	40	9.4
3. \$500,001 - \$1,000,000	50	11.7
4. \$1,000,001 - \$5,000,000	156	36.5
5. \$5,000,001 - \$10,000,000	55	12.9
6. \$10,000,001 - \$50,000,000	69	16.2
7. \$50,000,001 - \$100,000,000	14	3.3
8. Over \$100,000,000	21	4.9
9. No Answer	<u>8</u>	<u>1.9</u>
	427	100.0*

*Does not add due to rounding.

Chapter III

LITERATURE REVIEW

The Defense Industrial Base consists of thousands of prime contractors and subcontractors in a multitude of industries providing goods and services utilized by the Department of Defense. Measuring the size of this base is difficult because it constantly fluctuates with firms entering and exiting the base. Further, although some firms will commit certain resources to Defense requirements, there are other capabilities which they have devoted for economic or political reasons to operations not supporting Defense efforts. Perhaps the most difficult aspect of measuring prime contractors versus subcontractors at various tier levels is the fact that many prime contractors are also subcontractors on other Government contracts.⁴

A major finding of the Defense Industrial Base Panel chaired by Representative Richard H. Ichord in 1980 was that the ability of the supplier network making up the defense industrial base is in danger of becoming too small to be effective.⁵ The panel also found that:

- a. The problem with the supplier network is not at the prime contractor level where there

⁴U.S. General Accounting Office Report to the Subcommittee on International Trade, Finance and Security Economics of the Joint Economic Committee, Assessing Production Capabilities and Constraints in the Defense Industrial Base, GAO/PEMD-85-3, April 1985, p. ii.

⁵"The Ailing Defense Industrial Base: Unready for Crisis," op. cit., p. 5.

exists excess capacity. The deficiencies exist at the subcontractor and lower levels.

- b. If there were a national emergency the industrial base would be unable to surge its production to meet the threat.
- c. The lead times required to obtain the equipment delineated by the Military Services have increased within the last several years.
- d. The Nation has become dependent upon foreign suppliers for both raw materials and specialized military components.
- e. The manufacturing base of the United States is currently the lowest of the free world industrialized nations in terms of productivity growth rate.⁶

One Deputy Under Secretary of Defense stated that "while sufficient capacity generally exists at the prime contractor level to support defense programs, deficiencies exist at the subcontractor and vendor levels."⁷ Several other studies and reports have stated that not only are the critical problems centered at the subcontractor levels, but the base is rapidly shrinking because suppliers are going out of business or they are declining to become involved in defense contracts.⁸ Several reasons have been offered for this deteriorating situation. One major reason has been the instability of defense programs which generally affects subcontractors in a more dramatic fashion than

⁶Ibid., p. 6.

⁷Church, D. W., "Reforging Industrial Readiness," Defense, December 1980, p. 3.

⁸"The Ailing Defense Industrial Base: Unready for Crisis," op. cit., p. 6.

does such fluctuation affect primes.⁹ Another principal cause which has surfaced is the stringent application of material specifications that go well beyond existing commercial standards and practices.¹⁰ Other problems cited were "excessive administrative requirements, sporadic procurement practices and restrictive documentation, plus a lack of flow down benefits from the prime contractors."¹¹

In testimony before the Ichord Panel, subcontractors stated that they preferred commercial work to defense work and that they suffered more from the paperwork associated with defense business than did the larger firms.¹² One author cited several examples of paperwork which defense contractors and subcontractors were required to understand and complete in order to be awarded defense contracts or to satisfactorily perform such contracts as follows:

- a. DOD Form 250 special shipping document even on small dollar orders,
- b. changes in accounting systems to satisfy Cost Accounting Standards (P.L. 91-379),
- c. cost or pricing data to satisfy the Truth in Negotiations Act (P.L. 87-653),

⁹Vawter, R. L., Industrial Mobilization: The Relevant History, National Defense University Press, Fort McNair, Washington, D.C., 1983, p. 70.

¹⁰Stimson, R. A., "Correcting the Shortfalls in the Defense Specifications and Standards Program," Defense Management Journal, March-April 1979, p. 20.

¹¹Vawter, op. cit., p. 70.

¹²"The Ailing Defense Industrial Base: Unready for Crisis," op. cit., pp. 13-14.

- d. records reflecting compliance with various socioeconomic programs such as Equal Opportunity, Walsh-Healy, Small Business and Labor Surplus Utilization,
- e. records reflecting compliance with inspection and testing requirements, such as MIL-I-45208,
- f. technical manuals and provisioning requirements beyond normal commercial requirements, and
- g. a multitude of boiler plate provisions which require the advice of a lawyer.¹³

The literature provides case after case of situations which cause (or could cause) companies to avoid defense business for a variety of reasons. One recent study which attempted to determine the effectiveness of procurement workshops conducted by the Navy Office of Legislative Affairs (OLA), asked two questions of a selected sample of attendees regarding Government business.¹⁴ The first question asked:

If you have not done business with the Government, do you intend to in the future?

Eighty-one percent of the respondents answered yes while nineteen percent (18 firms) answered in the negative. Those answering "NO" were asked to cite the reasons for their answer. Responses were:

- a. not interested

2

¹³Gansler, Jacques S., The Defense Industry, Cambridge, MA, MIT Press, 1981, pp. 146-147.

¹⁴Gaffney, William H., A Survey of the Navy Office of Legislative Affairs Program: OLA Procurement Workshops, Master's Thesis, Naval Postgraduate School, Monterey, CA, December 1986, pp. 99-100.

b.	too hard/complicated	6
c.	burdensome paperwork	3
d.	instability of Govt business	1
e.	Govt bidding methods	4
f.	low profitability	4
g.	other	2

The next question asked:

If you are doing business with the Government, do you intend to quit?

In this case only 6.4% of the respondents (9 of 132) indicated they were going to quit. Reasons offered here included:

a.	late payment or nonpayment	1
b.	burdensome paperwork	0
c.	delays in making award	2
d.	problems with contract, tried to get help at workshop but didn't	0
e.	more attractive commercial ventures	2
f.	unfair application of regulations	4
h.	other	1

Both of these questions have elicited answers which give some clues as to the difficult or frustrating aspects of dealing with the Government, particularly the Military Services.

Any study of the magnitude and reasons for firms exiting from or refusing defense business should recognize the results of these earlier efforts. This study has focused on the principal reasons cited above plus several others in an attempt to determine the critical issues involved in company decisions regarding defense work.

Chapter IV

DATA AND ANALYSIS

A. Introduction

Responses to each of the four versions of the questionnaire were categorized according to whether a respondent answered Question 9 (Q9) or, because it was inapplicable, did not answer Q9. Question 9 asked the following:

9. What are the primary reasons you are NOT NOW involved in Defense business or intend to GET OUT. (Please rank in order of importance if more than one item applies, for example 1, 2, 3, etc.) (Skip this question if you checked either answer 8c or 8d.) (A list of 24 reasons was then provided. See Appendix C)

For purposes of clarification, Question 8 solicited respondents' attitudes toward obtaining Defense business. Answer 8c (one of four possible attitude choices) stated "We have Defense business now and intend to STAY." Answer 8D stated "We do not have Defense business but intend to seek such business." Several companies checked answer 8C or 8D (which indicated they were not refusing to be involved in Defense business) but then went on to answer Q9 with comments concerning dissatisfaction with several aspects of the Defense procurement process. In such cases, the respondent was classified as a Question 9 yes (Q9Y) but then further identified as wanting to be IN Defense work. Throughout the remainder of this report, Q9Y or 9Y refers to respondents who answered Q9 by checking one or more of the reasons listed on the questionnaire. When appropriate, the further subcategorization of respondents who answered Q9 but

still will accept DOD work are classified as "IN." Those respondents who don't want DOD business are "OUT."

Each of the four versions of the questionnaire were mailed to different groups of contractors and subcontractors. Because the responses have implications for these groupings of companies, each of the four versions will be analyzed separately regarding answers to Q9. A composite analysis of all responses will summarize these four categories.

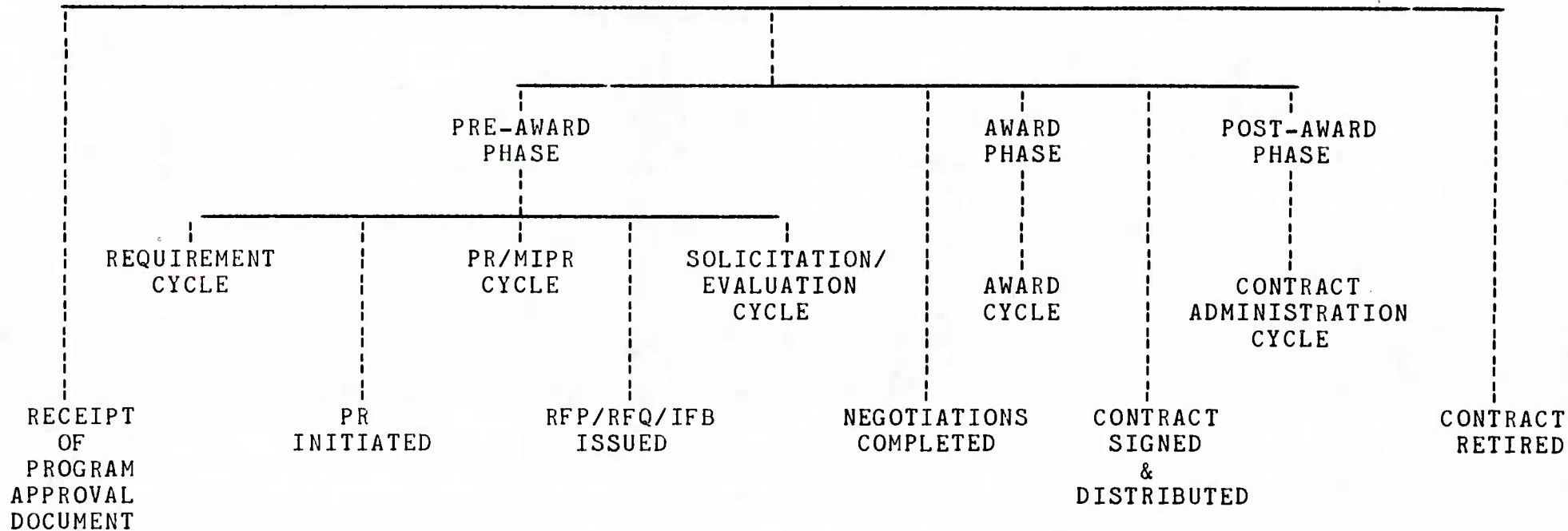
B. Framework For Analysis

In order to provide a structure for analysis of responses to the questionnaire, it was decided that the Procurement Process taxonomy developed by Martin, Heuer, Kingston and Williams would be employed.¹⁵ In its broadest scope, the procurement process taxonomy (hereinafter referred to as the Martin Taxonomy), is subdivided into three major phases: Pre-Award, Award and Post-Award and further subdivided into five cycles. Figure 4.0 depicts the procurement process, phases and cycles together with key activities which start/stop the cycles.

¹⁵Martin, Martin D., Gerald R. J. Heuer, John C. Kingston and Eddie L. Williams, "An Evaluation of the Definition, Classification and Structure of Procurement Research in DOD" National Contract Management Quarterly Journal, 1978, pp. 35-59.

Figure 4.0

THE PROCUREMENT PROCESS



Source: Martin Taxonomy

PR - Purchase Request
MIPR - Military Interdepartmental Purchase Request
RFP - Request for Proposals
RFQ - Request for Quotations
IFB - Invitation for Bids

Twenty-four reasons were listed in Question 9 which were to be checked (as applicable) and rank ordered. Each of these reasons has been linked to one or more of the three phases of the Martin taxonomy. For the purposes of this study, the twenty-four reasons were further subdivided as follows:

- (a) pertain to a specific cycle/event in procurement process
- (b) involve a Government decision
- (c) involve a Contractor decision
- (d) pervade throughout the procurement process

Items Y and Z on the survey provided an opportunity for respondents to insert reasons not found in items A through X. These two reason codes were utilized 38 times (Y) and 8 times (Z) and apply to all three phases of the Martin Taxonomy.

- (e) reasons Y and Z

Figure 4.0A identifies how the twenty-six reasons from Q9 are distributed over the three phases of the Martin taxonomy. Answers to Q9 and Q10 of the questionnaire will be analyzed utilizing the scheme depicted in Figure 4.0A.

Figure 4.0A

REASON CODES FROM QUESTION 9 DISTRIBUTED
WITHIN MARTIN TAXONOMY

Category	Phase	Pre-Award	Award	Post-Award
(a) Procurement Process		F, I, L*	G	D, U, L*, J, H, A
(b) Government decision		C, Q, V	None	K, P, W
(c) Contractor decision		E, M, N, R, X	None	None
(d) Pervasive through all phases		B, O, S, T		
(e) Reasons Y and Z		Applies to all phases		

*Reason L is listed in both Pre-Award and Post-Award phases.

Source: Developed by Researcher

C. Version #1

Version #1 of the questionnaire was sent to a total of 96 firms. These firms were selected from the following sources: (a) at random from the membership list of the Western Shipbuilders Association (WSA) dated 1985, (b) at random from Armed Services Board of Contractor Appeals (ASBCA) cases for 1985, and (c) at random from U.S. Claims Court cases for 1985.

<u>Questionnaires</u>	<u>Mailed</u>	<u>Returned</u>	<u>% of Total Returned</u>
WSA	42	17	41.5
ASBCA	38	16	39.0
Claims Court	16	1	2.4
No Identification	-	7	17.1
Totals	96	41	100.0

Forty-one companies returned the questionnaire for a return rate of 42.7%. Seven of the 41 companies decided not to identify themselves. The 41 companies responded as follows:

Question 9

Answered
15

Not Answered
26

Total
41

Table 4.1 presents the frequency of citation for each reason in Q9 of the questionnaire. Where a rank ordering was performed by the respondent, Table 4.1 also presents the frequency that each reason was prioritized as either first or second. Twelve of the 15 firms in this version prioritized the reasons they had selected.

TABLE 4.1

FREQUENCY OF REASONS
CITED BY 15 FIRMS ANSWERING
QUESTION 9 AFFIRMATIVELY

<u>Reason Code</u>	<u>Reason</u>	<u>Frequency</u>	<u>Cited*</u>	
			<u>1st</u>	<u>2nd</u>
B	Burdensome Paperwork	13	5	2
A	Late Payment/Nonpayment	9	-	-
F	Government Bidding Methods	8	2	2
M	Low Profitability	8	-	1
O	Inflexible Procurement Policies	8	-	-
J	Inconsistent Quality Requirements	7	1	2
S	Government Attitude	5	2	1
G	Delays in Making Awards	4	-	-
N	More Attractive Commercial Ventures	4	-	-
C	Small Business Set Aside (Respondent is large business)	3	1	-
P	Adverse Court or Board Ruling	3	-	-
T	Unfair Application of Regulations	3	-	2
E	Uncertainty/Instability of Govt Business	2	-	-
L	Audit Procedures	2	-	-
V	Lost Business to Competitors	2	-	1
X	Not Enough Defense Business	2	-	-
D	Government Furnished Equipment Problems	1	1	-
H	Frequent Contract Changes	1	-	-
I	Technical Data Rights Problems	1	-	-
K	Acceptance/Rejection Problems with my Product/Service	1	-	1
R	Inefficient Production Levels/Rates	1	-	-
U	Prime Contractor/Higher Tier Sub-contractor Methods	1	-	-
Y	Other	1	-	-
Q	Adverse General Accounting Office (GAO) Decision	0	-	-
W	Contract(s) Terminated	0	-	-
Z	Other	0	-	-

*Three firms failed to prioritize the reasons.

These 15 contractors categorized themselves as either prime contractors, subcontractors or both as follows:

<u>Prime Contractor only</u>	<u>Subcontractor only</u>	<u>Both Prime and Sub</u>	<u>Total</u>
4	3	8	15

Of these 15 contractors, 9 indicated that they are either in defense contracting and wish to stay or are seeking defense business while 6 contractors indicated they don't wish to do business with DOD. The breakdown of prime, sub or both regarding being IN or OUT of defense business was as follows:

	<u>IN</u>	<u>OUT</u>
Prime Only	2	2
Sub Only	3	0
Both Prime & Sub	4	4
Total	<u>9</u>	<u>6</u>

This would indicate that firms which perform work exclusively as subcontractors generally wish to continue as subs while pure primes or primes and subs are evenly split between staying in and getting out.

With respect to the three sources of respondents for this first version concerning IN versus OUT, the following was observed:

<u>Source</u>	<u>IN</u>	<u>OUT</u>	<u>TOTAL</u>
WSA	4	3	7
ASBCA	3	3	6
Claims Court	0	0	0
No Identification	<u>2</u>	<u>0</u>	<u>2</u>
	9	6	15

The crucial aspects of this study include not only the reasons cited by respondents regarding Q9, but also the examples of these reasons in answering Question 10. Q10 asked the following:

"10. Please explain, perhaps with an example, the specifics of the items you ranked as 1 and 2 in Question 9."

The 15 firms responding to this first version of the questionnaire were extremely critical of the procurement process and Government decision-making process in the pre-award phase as well as the procurement process in the post-award phase as can be seen in Table 4.1A. Burdensome paperwork (Reason B) was the principal problem presented in terms of volume and complexity. Specifications and standards (both in the pre-award and post-award phases) were often a manifestation of the burdensome paperwork problem. Unreasonable performance requirements, particularly as demanded by Quality Assurance Representatives (QARs), and the lack of realistic requirements were also chief sources of dissatisfaction.

These 15 firms are a mix of ship repair companies and companies which have "gone to court" with the Government. Their perspective of Government procurement has come primarily from Navy ship repair business and adjudication of disputes through the ASBCA or Claims Court. The nature of ship repair work can be extremely open ended and difficult to assess before the contractor has actually been awarded a contract and begun to investigate the repairs to be accomplished. New work and/or work growth is a dominant characteristic of the repair/maintenance/

TABLE 4.1A

 VER # 1
 IN * OUT *

Q10

NO ANSWER 4DISTRIBUTION OF REASONS CITED BY 15 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

PHASE			
CATEGORY	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS	F=8 (2,2) . Navy allows selected KTRS to low-ball I=1 . Failed to receive business because mat'l L=2 in Gov't supply system . Specs/stds beyond reason	G=4 . award delayed	A=9 . incompetent DCAA/DCAS people D=1 (1-) . several concurrent audits H=1 . quality stds for different than on J=7 (1,2) equivalent commercial work L=2 . test rqmts do not relate to real world U=1 thus higher costs to KTR & Govt. . QARs lack knowledge of our product
GOVERNMENT DECISION	C=3 (1,-) . Navy repair work has gone to other Q=0 areas in country - we lost to V=2(-,1) competition . Not much demand for our product . Most small business not available to us		. ECPs take unreasonable amount of time due to lack of G knowledge (also waivers) . G has unreasonable rqmt for A&E perf. K=1 (-,1) P=3 W=0
CONTRACTOR DECISION	M=8 (0,1) E=2 N=4 R=1 X=2		
PERVASIVE	B=13 (5,2) . multiple forms O=8 . too much paperwork for 3-5% profit S=5 (2,1) . paperwork - volume/incomprehensible T=3 (-,2) . paperwork makes G work very costly . not worth maintaining system/certifications for Defense work		. paperwork just to qualify as bidder not worth potential return . paperwork-acctg and reporting requirements
Y and Z	Y=1 Z=0		

overhaul business. Although reference has been made by these firms to the competitive aspects of Navy business, none were critical of this work once the contract had been awarded. Contractors who had ASBCA/Claims Court cases were critical of Government capabilities and attitudes. Incompetent contract audit/contract administration people and the frequency of audits were some of their predominant complaints.

Although 9 of 15 companies cited Late Payment/Nonpayment as a problem, none ranked it in the top two categories. Recent emphasis on payment procedures has tended to reduce the magnitude of the problem. The Prompt Payment Act of 1982 may have contributed to a reduction in the severity of payment issues if not the frequency.

Tables 4.1 and 4.1A basically suggest that the Government needs to focus its efforts in the areas outlined in Table 4.1B.

One half (17) of those companies identifying themselves were those firms taken at random from 1985 ASBCA and court cases. The researcher expected that a significant number of comments in Q10 would focus on the litigative or adjudicative issues surrounding the cases to which these firms were subjected. Virtually no mention was made of any ASBCA or Court related problems except one comment which claimed that recourse through the courts wasn't pursued due to the cost and time involved. Table 4.1 indicates that Reason P (Adverse Court or Board ruling) was cited by three respondents, but not as one of the top two reasons. A related

TABLE 4.1B

VER # 1
IN * OUT *

Q 10

NO ANSWER _____

DISTRIBUTION OF REASONS CITED BY 15 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

PHASE		AWARD	POST-AWARD
CATEGORY	PRE-AWARD		
PROCUREMENT PROCESS	(F)= Government bidding methods I= L=	G=	(A)= Late payment/nonpayment D= H= (J)= Inconsistent Quality Requirements L= U=
GOVERNMENT DECISION	C= Q= V=		K= P= W=
CONTRACTOR DECISION	(M)= Low profitability E= N= R= X=		
PERVASIVE	(B)= Burdensome Paperwork (O)= Inflexible Procurement Procedures (S)= Government Attitudes T=		
Y and Z	Y= Z=		

reason Q (Adverse GAO decision), elicited no responses from this group. In comparison, these same two reasons for the remaining three groupings of contractors show only a slight difference in frequency as follows:

<u>Reason Code</u>	<u>Version #1</u>	<u>Version #2</u>	<u>Version #3</u>	<u>Version #4</u>
P (Court/Board)	3	1	2	2
Q (GAO)	0	3	1	1

In analyzing other responses from the 15 companies in this first version, Question 12 asked for the method by which the majority of awards were received if they had been a prime contractor. Question 13 attempted to determine how frequently firms find themselves involved with the General Accounting Office (GAO) regarding bid/award protests and Question 14 had the same intent concerning ASBCA and the Courts. Responses to these questions were:

Q12	Sealed Bid (Formal Advertising)	10
	Competitive Proposal (Negotiations)	5
	Sole Source	2
	Small Purchase/Purchase Order	5

Q13 Have you ever filed a protest with GAO?

YES 8 NO 6 No Answer 1

If yes, did the GAO rule in your favor?

YES 3 NO 5

Q14 Have you ever filed an appeal?

ASBCA	YES <u>5</u>	NO <u>10</u>
Court	YES <u>1</u>	NO <u>11</u>

If yes, was ruling in your favor?

ASBCA	YES <u>1</u>	NO <u>4</u>
Court	YES <u>0</u>	NO <u>2</u>

D. Version #2

Version #2 of the questionnaire was sent to a total of 760 firms. These forms were selected from the following sources: (a) at random from the 1985 U.S. Machine Tool Directory provided by the National Machine Tool Builders' Association (NMTBA); (b) at random from construction firms identified in the Book of Corporate Managements, 1984; (c) at random from members of the National Tooling & Machining Association (NTMA); and (d) at random from members of the Electronic Industries Association (EIA):

<u>Questionnaires</u>	<u>Mailed</u>	<u>Returned</u>	<u>% of Total Returned</u>
NMTBA	100	21	9.2
Construction Firms	35	4	1.8
NTMA	525	127	56.0
EIA	100	29	12.7
No Identification	<u>-</u>	<u>46</u>	<u>20.3</u>
Totals	760	227	100.0

Two Hundred twenty-seven (227) companies returned the questionnaire for a return rate of 30.0%. Forty-six companies decided not to identify themselves. The 227 companies responded as follows:

<u>Question #9</u>		
<u>Answered</u>	<u>Not Answered</u>	<u>Total</u>
128	99	227

In analyzing the 128 firms which answered Q9, 88 companies indicated that Reason B (Burdensome Paperwork) contributed to their dissatisfaction with DOD business. Of the 103 firms that prioritized the reasons, 57 firms included this reason as either first or second on their list. The frequency of citation for each reason is listed in Table 4.2.

TABLE 4.2

FREQUENCY OF REASONS
CITED BY 128 FIRMS ANSWERING
QUESTION 9 AFFIRMATIVELY

<u>Reason Code</u>	<u>Reason</u>	<u>Frequency</u>	<u>Cited*</u>	
			<u>1st</u>	<u>2nd</u>
B	Burdensome Paperwork	88	41	16
F	Government Bidding Methods	74	15	23
N	More Attractive Commercial Ventures	45	6	5
O	Inflexible Procurement Policies	44	3	11
S	Government Attitude	33	1	4
G	Delays in Making Awards	30	1	3
M	Low Profitability	30	5	1
J	Inconsistent Quality Requirements	25	7	7
Y	Other	22	5	2
E	Uncert/Instab of Government Business	20	1	2
A	Late Payment/Nonpayment	14	1	1
L	Audit Procedures	13	-	-
T	Unfair Application of Regulations	13	3	-
I	Technical Data Rights Problems	12	5	3
H	Frequent Contract Changes	11	-	1
K	Accept/Reject Problems with Product/Service	10	-	3
R	Inefficient Production Levels/Rates	10	-	3
U	Prime Contractor/Higher Tier Subcontractor Methods	10	2	1
V	Lost Business to Competition	8	1	2
X	Not Enough Defense Business	7	4	-
Z	Other	4	-	-
Q	Adverse General Accounting Office (GAO) Decision	3	1	-
C	Work Set Aside for Small Business (Respondent is large business)	2	2	-
D	Govt Furnished Equipment Problems	2	-	-
P	Adverse Court or Board Ruling	1	-	-
W	Contract(s) Terminated	0	-	-

*Twenty-five firms failed to prioritize the reasons.

These 128 contractors categorized themselves as either prime contractors, subcontractors or both as follows:

Prime Contractor only	Subcontractor only	Both Prime and Sub	Total
<u>22</u>	<u>17</u>	<u>89</u>	<u>128</u>

Of these 128 contractors, 66 indicated that they are either in defense contracting and wish to stay or are seeking defense business while 62 contractors indicated they don't wish to do business with DOD. The breakdown of prime, sub or both regarding being IN or OUT of defense business was as follows:

	<u>IN</u>	<u>OUT</u>
Prime Only	12	10
Sub Only	8	9
Both Prime & Sub	<u>46</u>	<u>43</u>
Total	66	62

This seems to indicate essentially no difference between the three categories in their experience and attitude which subsequently leads them to a position of wanting to be IN and desiring to be OUT.

With respect to the four sources of respondents for this second version concerning IN versus OUT, the following was observed:

<u>Source</u>	<u>IN</u>	<u>OUT</u>	<u>Total</u>
NMTBA	10	5	15
Construction Firms	0	3	3
NTMA	40	33	73
EIA	4	5	9
No Identification	<u>12</u>	<u>16</u>	<u>28</u>
Totals	66	62	128

The responses to Q10 from the sixty-six IN and sixty-two OUT companies in this second version begin to develop a very specific pattern of problems with DOD procurement. Of the 128 respondents who answered Q9, 39 did not answer Q10 thus the specific reasons for their problems with Defense procurement could not be defined. Responses from the remaining 89 firms, however, sufficiently explained the difficulties encountered. Most of the answers to Q10 focused on problems and issues involved in the pre-award period as opposed to problems encountered after contract award. The emphasis in the pre-award phase was on the procurement process, the pervasive factors and several additional reasons (using codes Y and Z). Table 4.2A depicts the flavor of responses to Q10 from this group. Table 4.2B presents the pre-award reasons with the greatest citations drawn from Table 4.2. The bidding process was characterized as cumbersome, rigged, containing impossible requirements, poor availability of drawings and inconsistent drawings. Burdensome paperwork was once again the principal reason for problems with the system, characterized by several page bid packages; need for specialists to review and understand bid requirements; and voluminous, confusing and inconsistent paperwork. A sharper focus was pointed at Government people lacking the ability to respond to questions or slow to make crucial decisions. One contractor stated that Government paperwork was so slow that it was impossible to establish reliable internal schedules. Many more comments were offered in the "other" categories of reasons. These comments

TABLE 4.2A

NO ANSWER 39

VER # 2
IN * OUT *Q 10
DISTRIBUTION OF REASONS CITED BY 128 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

PHASE CATEGORY			
	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS	F=74(15,2,3). Rqmts too high for our shop I=12(5,3) . Sol drafters lack knowledge of product L=13 thus hard to adhere to rqmts. . Specs built around competitor's model . G tech data inconsistent w/Std . Can't get dwgs how make?/how G insp? . 30 day wait for bid pkg - SPCC . Poor dwgs/MilSpecs/availability . Govt bidding method too cumbersome . low bid was rigged . bidding against so many companies feel get K only if make mistake	G=30(1,3) . delays in making awards makes costs go up but still must provide at bid price	A=14(1,1) .Std's are ridiculously high & unrealistic D= 2 .DCAS QAR wrongly rejecting shipments H=11(-,1) .one inspector will accept & next will J=25(7,7) not L=13 U=10(2,1)
GOVERNMENT DECISION	C=2(2,-) Q=3(1,-) V=8(1,2)		K=10(-,1) .Govt can't agree internally regarding P=1 what meets K rqmts W=0
CONTRACTOR DECISION	M=30(5,1) . Profits shrink from admin burden in cost E=20(1,2) acctg & record keeping N=45(6,5) . Commercial work more productive R=10(-,3) . Low profitability at SubKtr level X=7 (4,-)		
PERVASIVE	B=88(41,16). G people balk at helping answer questions O=44(3,11) . G people can't answer bid pkg questions S=33(1,4) . Recent G quote took 3 wks/100 pages; same industry job 3 Hrs/10 page quote T=13(3,1) . Not enough time for Govt red tape - industry easier	. Need special office & shop people just to do paperwork . Spent 3-4 wks figuring out bid procedures, getting permits & preparing bid - lost be 3% on "all or nothing" pkg . No one to answer questions; all in legalese . Govt slow to make decisions	

TABLE 4.2A (Cont.)

NO ANSWER 39VER # 2
IN * OUT *

Q 10

DISTRIBUTION OF REASONS CITED BY 128 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

PHASE			
CATEGORY		PRE-AWARD	AWARD POST-AWARD
PERVASIVE (Cont.)		<ul style="list-style-type: none"> Need to hire specialists in Defense forms. Too much paperwork, days of reading to understand rules & regs scared off due to paperwork Inconsistent paperwork Looking up stds to bid takes forever No prints to review Inexperience in dealing with Govt Paperwork too voluminous - want to be cautious CBD-wade through Inflexible procurement policies - can't get answers to bid questions 	<ul style="list-style-type: none"> Bids should be on simple form w/blueprint like private firms Too hard to understand bid sheets Govt paperwork so slow that reliable internal scheduling impossible Buyer very uncooperative Purchasing people no help Can't understand RFQ Utterly confusing specs Too many obsolete specs, double or overlapping specs
Y and Z	Y=22(5,2) Z- 4	<ul style="list-style-type: none"> Troubled by inability to get Ks from prime Don't know whom to contact in G for business Can't get on approved list because gages (new) had insp > 1 yr ago Quote 80% but get no orders Do OK as sub, don't have time/skills for bigger work Need Education on how to get G work Govt wants quality but not pay for it; very uncooperative to vendor problems 	<ul style="list-style-type: none"> Time/money to break through Govt proc system not worth trouble Discrimination against majority

VER # 2
IN * OUT *

Q 10
DISTRIBUTION OF REASONS CITED BY 128 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

NO ANSWER _____

CATEGORY	PHASE	
	PRE-AWARD	POST-AWARD
PROCUREMENT PROCESS	(F)= Government Bidding Methods I= L=	A= D= H= J= L= U=
GOVERNMENT DECISION	C= Q= V=	K= P= W=
CONTRACTOR DECISION	M= E= N= R= X=	
PERVASIVE	(B)= Burdensome Paperwork (O)= Inflexible Procurement Procedures S= T=	
Y and Z	Y= Z=	

centered on a desire to do Government business but unaware of whom to contact, not being able to get on an "approved" bidders list, claiming discrimination against the majority, and the idea that extensive time and money are needed in order to break into Government procurement.

The few post-award statements involved QARs wrongly rejecting shipments and an inability of internal organizations of the Government to reach agreement on contract requirements. One contractor was frustrated by the fact that one inspector will accept something while another inspector will reject the very same work.

Although delays in making awards was identified 30 times, very few comments were made in this area. One contractor stated that the delays in making awards make costs go up but the bidder must still provide the item at the bid price. This area is important as a target for procurement process improvement.

Late payment or nonpayment was not a particularly difficult issue compared with respondents to Version #1. In identifying post-award problems, inconsistent quality requirements (Reason J) ranked high on the list. Noticeably absent from high volume citations were several post-award (performance) issues which typically cause distinctly difficult problems. No one stated that contract termination was an issue. Government furnished equipment (GFE), inefficient production levels, product rejection problems and frequent contract changes were all cited by 11 or fewer of the 128 respondents. The majority of the firms in this

group are associated with the tool and die industry involved in producing piece parts and components, generally to Government or prime contractor specifications. Responses from this group seem to indicate that once the decision to pursue Government work has been made and a contract has been successfully captured, relatively few contract administration difficulties are encountered. The pre-award decision not to follow Government work due to uncertainty/instability of Government business base (reason E) and not enough Defense business (reason X) was cited by approximately 21% of the 128 respondents.

Most of the burdensome paperwork problems were associated with specifications in the bid packages. Specifications were characterized as outdated, hard to read, too restrictive, consisting of too many pages, hard to understand, confusing, obsolete, cumbersome, incomplete, duplicative and difficult to clarify or obtain. Specifications are singularly responsible for the greatest degree of frustration and costly effort in the pre-award phase. Efforts to improve the procurement process could be focused in this area with potentially dramatic results.

Responses to Q12 (bidding methods), Q13 (GAO) and Q14 (ASBCA/Court appeals) for the 128 companies in this second version are:

Q12	Sealed Bid (Formal Advertising)	24
	Competitive Proposal (Negotiations)	18
	Sole Source	3
	Small Purchase/Purchase Order	15
	No Answer	81

Q13 Filed GAO Protest

YES 2 NO 109 No Answer 17

If yes, ruled in your favor

YES 1 NO 1

Q14 Filed Appeal

ASBCA	YES	<u>3</u>	NO	<u>104</u>	No Answer	<u>21</u>
Court	YES	<u>1</u>	NO	<u>100</u>	No Answer	<u>27</u>

If yes, ruled in your favor

ASBCA	YES	<u>1</u>	NO	<u>2</u>
Court	YES	<u>0</u>	NO	<u>1</u>

E. Version #3

Version #3 of the questionnaire was sent to a total of 231 firms. These firms were selected from the following sources: (a) at random from the Navy Regional Contracting Center (NRCC) Long Beach bidder's list of communications equipment, electrical and electronic equipment, and electric wire and power and distribution equipment companies; and (b) at random from the Navy Regional Contracting Center (NRCC) Washington, D.C., bidder's list of ADP equipment companies.

<u>Questionnaires</u>	<u>Mailed</u>	<u>Returned</u>	<u>% of Total Returned</u>
NRCC Long Beach Bidder's List	166	46	65.7
NRCC Washington, D.C. Bidder's List	65	11	15.7
No Identification Totals	<u>--</u> 231	<u>13</u> 70	<u>18.6</u> 100.0

Seventy companies returned the questionnaire for a return rate of 30.3%. Thirteen of these companies refused to make known their identity. The 70 companies responded as follows:

<u>Question 9</u>		
<u>Answered</u>	<u>Not Answered</u>	<u>Total</u>
26	44	70

In analyzing the 70 firms which answered Q9, 22 companies indicated that Reason B (Burdensome Paperwork) contributed to their dissatisfaction with DOD business. Of the 19 firms that prioritized the reasons, 12 firms included this reason as either

first or second on their list. The frequency of citation for each reason is listed in Table 4.3.

These 26 Contractors categorized themselves as either prime contractors, subcontractors or both primes and subs as follows:

<u>Prime Contractor only</u>	<u>Subcontractor only</u>	<u>Both Prime and Sub</u>	<u>Total</u>
4	6	16	26

Of these 26 contractors, 22 indicated that they are either in defense contracting and wish to stay or are seeking defense business while 4 contractors indicated they don't wish to do business with DOD. The breakdown of prime, sub or both regarding staying in or out of defense business was as follows:

One such case cited improper use of the bid rule by soliciting for such a small quantity that only the current producer could be competitive. It was during this set of responses that the Federal Prison Industries appeared for the first time, cited twice as the reason a small business couldn't break into Government work on a viable basis.

These contractors as a group were experiencing problems with late payment in more situations than the other three groups. The allegation here was the Government not only failed to pay on time but would still take the prompt payment discount. Two contractors admitted no results in attempting to collect the interest due on their late payments.

The greatest response area again involved the issues associated with burdensome paperwork. The situations and complaints were just as varied and sharp as those cited in the first two versions. Perhaps more telling was the view of Government buying personnel exhibited by respondents. Whereas versions 1 and 2 of the questionnaire elicited responses that characterized Government buyers and technical personnel as being unable to answer bid questions (due either to unavailability or lack of knowledge), these respondents were extremely critical of Government personnel attitudes. One respondent claimed that buyers don't give a damn about purchasing, just pushing paper while another complained that no one would help him.

TABLE 4.3A

VER # 3
IN * OUT *

Q 10

DISTRIBUTION OF REASONS CITED BY 26 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMYNO ANSWER 6

PHASE CATEGORY	PRE-AWARD		AWARD	POST-AWARD	
PROCUREMENT PROCESS	F=14(3,2) I=6 L=5	<ul style="list-style-type: none"> • RFPs for small quantities in production by another company apparently solicited to follow 3 bid rule, not possible to bid competitively. • procurement to lowest bidder when bid may not be valid, Govt then subsidizes KTR losses • proprietary specs • Govt disqualifies bidders who don't meet brand name description word for word • bidding requires days of preparation with no profit • if Govt met with bidder to explain reqts, would get higher quality at lower cost • sealed bids and then several rounds of best and finals make low profit for small contractors • rotational bidding unfair 	G=12(1,1) • bids take 2-3 months to award, my costs increase and then I get lower profits	A=7(2,1) D=2 H=4 J=7(1,2) L=5 U=3	<ul style="list-style-type: none"> • Quality control on non-critical items should be at Commercial level not MILSPEC • tight tolerances become cost prohibitive • late payment is biggest pitfall in Govt Contracting • any contracts administered by local DCAS mean late payment • Govt mishandling of paperwork and not paying bills promptly and then take 20 day prompt payment for 3-6 month delay • never paid within 30 day terms, usually usually 90-120 days for no reason, then don't get interest required by law
GOVERNMENT DECISION	C=1 Q=1	<ul style="list-style-type: none"> • low bidder unable to perform is saved by taxpayer 		K=6(-,1) P=2	<ul style="list-style-type: none"> • Govt not compelled to inspect and accept promptly (up to 90 days)

TABLE 4.3A (Cont.)

VER # 3
IN * OUT *Q 10
DISTRIBUTION OF REASONS CITED BY 26 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMYNO ANSWER 6

PHASE CATEGORY	PRE-AWARD		AWARD	POST-AWARD
GOVERNMENT DECISION (Cont.)	V=4(1,-)	<ul style="list-style-type: none"> • Federal Prison Industries gets our business • abolish set-asides • social programs should not be administered at program level • Federal Prison Industries takes major part of business and leaves dog jobs to us 		W=2 <ul style="list-style-type: none"> • inflexible regarding modern methods and materials • lost major Navy shipboard deal due to court decision • QARs reject improperly
CONTRACTOR DECISION	M=14(2,1) E=4 N=8 R=2 X=1	<ul style="list-style-type: none"> • profit margin too low • forces little guys to do business with little profit-didn't make profit for first 2 years • time much more productive in private sector 		
PERVASIVE	B=22(7,5) O=9(1,2) S=11 T=5	<ul style="list-style-type: none"> • Govt contract file looks like L.A. phone book, confusing and can't find anything • Govt bogged down with paperwork • too many forms that do not relate to our product • turbs of unnecessary paperwork • too much time and money lost in excessive documentation • paperwork very numerous 		<ul style="list-style-type: none"> • buyers don't give a damn about purchasing, just pushing paper • Govt buyers are ineffective and unproductive • paperwork is awesome - sometimes totally unrelated to bid-boilerplate • Govt attitudes - no one will help with data
Y and Z	Y=6(-,2) Z=1(1,-)	<ul style="list-style-type: none"> • Defense not open to innovative ideas to lower cost 		

TABLE 4.3B

VER # 3
IN * OUT *

Q 10

NO ANSWER _____

DISTRIBUTION OF REASONS CITED BY 26 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

PHASE CATEGORY	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS	(F)=Government Bidding Methods I = L =	(G)=Delay in Making Awards	A= D= H= J= L= U=
GOVERNMENT DECISION	C = Q = V =		K= P= W=
CONTRACTOR DECISION	(M)=Low Profitability E = N = R = X =		
PERVASIVE	(B)=Burdensome Paperwork (O)=Inflexible Procurement Policies (S)=Government Attitude T =		
Y and Z	Y = Z =		

Table 4.3B outlines the significant areas toward which Government policy and action should be directed.

Although this group of respondents was as vocal about their problems as the other three groups, it is interesting to contrast the number of respondents classifying themselves IN versus OUT for this group in relation to the other groups. Table 4.3C demonstrates this comparison.

TABLE 4.3C
COMPARISON OF IN VERSUS OUT
RESPONDENTS BETWEEN VERSION
3 AND ALL OTHER QUESTIONNAIRE
VERSIONS

<u>Q9 Response</u>	<u>Number of Respondents</u>	<u>% of Version Respondents</u>
IN (Version 3)	22	84.6
IN (All Others)	100	53.5
OUT (Version 3)	4	15.4
OUT (All Others)	87	46.5

Table 4.3C indicates that even though the Version 3 firms find as many problems and dissatisfactions with Government procurement as all other respondents, over 80% of these firms declare that they are IN Government business compared to slightly over one-half of the firms responding from the other three groups. One observation concerning this group is that all firms targeted for Version 3 were from bidder's lists maintained by Navy regional field buying offices. Although the responses from this group could have reflected Government business from buying offices in

the other Services, it is perhaps the most homogeneous group in terms of products and customers of any of the four versions of the questionnaire.

Responses to Q12 (bidding methods), Q13 (GAO) and Q14 (ASBCA/Court appeals) for the 26 companies in this third version are:

Q12	Sealed Bid (Formal Advertising)	14
	Competitive Proposal (Negotiations)	10
	Sole Source	1
	Small Purchase/Purchase Order	8
	No answer	5
Q13	Filed GAO Protest	
	YES <u>6</u> NO <u>17</u> No Answer <u>3</u>	
	If yes, ruled in your favor	
	YES <u>2</u> NO <u>4</u>	
Q14	Filed Appeal	
ASBCA	YES <u>1</u> NO <u>21</u> No Answer <u>4</u>	
Court	YES <u>1</u> NO <u>19</u> No Answer <u>6</u>	
	If yes, ruled in your favor	
ASBCA	YES <u>0</u> NO <u>1</u>	
Court	YES <u>1</u> NO <u>0</u>	

F. Version #4

Version #4 of the questionnaire was sent to a total of 230 firms. These firms were selected from the following sources: (a) all eighty two firms identified by large DOD contractors and DOD buying offices as refusing DOD business; (b) at random to companies who indicated to the Aviation Supply Office (ASO) that they no longer wished to be on a bidder's list (this information was obtained from DD Form 123 submitted to ASO); and (c) at random from firms who attended Small Business procurement conferences sponsored by the Navy Office of Legislative Affairs (OLA) and subsequently indicated no interest in DOD business.

<u>Questionnaires</u>	<u>Mailed</u>	<u>Returned</u>	<u>% of Total Returned</u>
Firms Refusing DOD Business	82	13	14.6
ASO	134	59	66.3
OLA	14	2	2.2
No Identification	<u>--</u>	<u>15</u>	<u>16.9</u>
Totals	230	89	100.0

Eighty-nine companies returned the questionnaire for a return rate of 38.7%. Fifteen companies declined to identify themselves. The 89 companies responded as follows:

Question 9

<u>Answered</u>	<u>Not Answered</u>	<u>Total</u>
44	45	89

In analyzing the 44 firms which answered Q9, 25 companies indicated that Reason F (Government Bidding Methods) contributed to their dissatisfaction with DOD business. Of the 32 firms that

to their dissatisfaction with DOD business. Of the 32 firms that prioritized the reasons, 6 firms included this reason as either first or second on their list. The frequency of citation for each reason is listed in Table 4.4.

These 44 Contractors categorized themselves as either prime contractors, subcontractors or both primes and subs as follows:

<u>Prime Contractor Only</u>	<u>Subcontractor Only</u>	<u>Both Prime and Sub</u>	<u>Total</u>
16	3	25	44

Of the 44 contractors, 25 indicated that they are either in defense contracting and wish to stay or are seeking defense business while 19 contractors indicated that they don't wish to do business with DOD. The breakdown of prime, sub or both regarding staying in or out of defense business was as follows:

	<u>IN</u>	<u>OUT</u>
Prime Only	10	6
Sub Only	1	2
Both Prime & Sub	<u>14</u>	<u>11</u>
Totals	25	19

Although a few more firms as primes or both primes and subs prefer DOD business, there is essentially no difference in staying IN or getting OUT for this group.

TABLE 4.4

FREQUENCY OF REASONS
CITED BY 44 FIRMS ANSWERING
QUESTION 9 AFFIRMATIVELY

Reason Code	Reason	Frequency	Cited*	
			1st	2nd
F	Government Bidding Methods	25	2	4
B	Burdensome Paperwork	24	7	3
O	Inflexible Procurement Policies	20	3	-
S	Government Attitude(s)	20	-	5
M	Low Profitability	17	3	3
N	More Attractive Commercial Ventures	16	1	4
A	Late Payment/Nonpayment	15	3	2
G	Delays in Making Awards	14	-	-
L	Audit Procedures	11	-	-
E	Uncertainty/Instability of Govt Business	10	1	-
T	Unfair Application of Regs	9	1	1
Y	Other	9	4	1
H	Frequent Contract Changes	8	-	-
I	Technical Data Rights Problems	8	2	-
J	Inconsistent Quality Requirements Standards too High	8	1	-
C	Work Set Aside for Small Business, (Respondent is large business)	7	3	-
R	Inefficient Production Levels/Rates	7	-	-
K	Acceptance/Rejection Problems with Product/Service	6	-	1
D	Govt Furnished Equipment Problems	4	-	-
V	Lost Business to Competitors	4	-	-
X	Not Enough Defense Business	3	-	-
Z	Other	3	-	2
P	Adverse Court/Board Ruling	2	-	-
U	Prime Contractor/Higher Tier Subcontractor Methods	2	-	-
W	Contract(s) Terminated	2	-	-
Q	Adverse General Accounting Office (GAO) Decision	1	-	-

*Twelve firms failed to prioritize the reasons.

With respect to the three sources of respondents for this fourth version concerning In versus OUT, the following was observed:

<u>Source</u>	<u>IN</u>	<u>OUT</u>	<u>TOTAL</u>
Firms Refusing	4	6	10
ASO	15	7	22
OLA	0	2	2
No Identification	<u>6</u>	<u>4</u>	<u>10</u>
Totals	25	19	44

The responses to Q10 from the twenty-five IN and nineteen OUT companies in this fourth version repeat the same basic pre-award and post-award problems cited by respondents to the first three versions of the questionnaire. Principal problems were Government bidding methods, low profitability, more attractive commercial ventures, burdensome paperwork, inflexible procurement policies, Government attitude and late payment/nonpayment. Table 4.4A identifies responses to Q10 while Table 4.4B summarizes the principal areas requiring Government attention to improve the procurement process. Of the 44 respondents who answered Q9, nine did not answer Q10 regarding specific case issues.

Version 4 was unique in that the target population consisted of firms which had either been identified by a buying office as not wanting Defense business or had made that position known themselves. This group represented those firms for which this study principally was established. Comparisons between this fourth group and the three previous groups should display any significant reasons why firms don't want Defense business from the general category of firms. One other observation regarding the respondents in this version. Each of the other questionnaire

versions include responses from a "homogeneous" group, e.g., firms belonging to the same industry association (NTMBA, NTMA, EIA, WSA, etc.) or firms in the same industry, e.g., construction, ADP, electrical components, etc. The only group which has the potential for consisting of a variety of firms as broadly as those in Version 4 are the ASBCA/Court Cases group solicited in Version 1.

Comments received in response to Q10 from these companies were essentially the same as those from the previous three groups. Although this was the only group which did not cite Burdensome paperwork as the most frequent of its problems, this reason was second only to Government bidding methods by the narrow margin of only one respondent.

Table 4.4C identifies the reasons cited by more than 50% of the respondents for all four groups. It is revealing to note that this group had the least problems with Government paperwork (54.5% of respondents versus 86.7%, 68.8% and 84.6% of respondents for the first three groups respectively. Other than Government bidding methods (56.8%), no other reason was cited by over 50% of the version four respondents.

TABLE 4.4A

VER # 4
IN * OUT *

Q 10

NO ANSWER 9DISTRIBUTION OF REASONS CITED BY 44 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

PHASE			
CATEGORY		PRE-AWARD	AWARD POST-AWARD
PROCUREMENT PROCESS	F=25(2,4) I= 8(2,-) L=11	<ul style="list-style-type: none"> • data rights problems • hard to understand rqmts-info sketchy, incomplete, obsolete at best • bid package came without specs, bid closed before got specs • make bid package so won't need a lawyer to read • bidder who makes biggest mistake gets job • dwgs not supplied and agency won't release thus only developer of dwgs can bid 	C=14 • Can't wait for Govt to decide; need to fill truck now A=15(3,2) D=4 H=3 J=8(1,-) L=11 U=2 • DCAS people want it their way and each is different • interpretations of standards vary • late payment is standard practice, interest not paid • Govt contracts nearly broke my company due to late payment and cancellation without compensation for costs • Govt inspectors don't know what a quality product is • package costs out of sight and rqmts inflexible • primes tell me I'm too small • testing and manufacturing specs too high, can't complete projects • mistakes on dwgs • inconsistent inspection • payment between 45-100 days • samples delayed in review • inspectors need to be trained
GOVERNMENT DECISION	C=7(3,-) Q=1 V=4	<ul style="list-style-type: none"> • lost business to competitors because of aid given by Govt agencies • when Navy insists on proprietary date, we "No Bid" • unfair restriction on competition • too difficult to compete 	K=6(-,1) P=2 W=2 • product meets specs but there are scratches on can; would be acceptable commercially • anything wrong with item & price, delivery and whole action falls into bottomless crevice • inspectors on witch hunt - looking for violations and no recourse

TABLE 4.4A (Cont.)

VER # 4
IN * OUT *

Q 10

NO ANSWER 9DISTRIBUTION OF REASONS CITED BY 44 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

CONTRACTOR DECISION	M=17(3,3) E=10(1,-) N=16(1,4) R= 7 X= 3	<ul style="list-style-type: none"> • production levels too low for efficiency • small business not geared to high volume and low profit items • Govt order was only one day inefficient run 		
PERVASIVE	B=24(7,3) C=20(3,-) S=20(-,5) T= 9(1,1)	<ul style="list-style-type: none"> • tons of paperwork with no real meaning • can't keep up with regs • Govt is very unresponsive • boilerplate much too complicated • myriad of stds and reporting reqts instead of performance goals • burdensome paperwork relates to bidding, inspection and quality reqts • bogged down in regulatory minutiae 	<ul style="list-style-type: none"> • contract boilerplate too much of a hassle • frequent changes in personnel and lack of interest to resolve problems • passing buck • turned down work as subcontractor due to paperwork 	
Y and Z	Y=9(4,1) Z=3(-,2)	<ul style="list-style-type: none"> • geographical problems • Govt people don't know what they are doing • due process rights ignored by Govt, accused of mistake means guilty with no chance to present evidence or question accuracy of information • Govt is ignorant but still applies rules unfairly • headaches of QPL, SQAP, DODAAD's & 1,000 other abbreviations and technical terms 	<ul style="list-style-type: none"> • Govt doesn't rely on off-the-shelf items but writes dumb regs that drive competitors away • volume of paperwork too much for small business related to size of order 	

TABLE 4.4B

VER # 4
IN * OUT *

Q 10

DISTRIBUTION OF REASONS CITED BY 44 FIRMS ANSWERING QUESTION 9 WITHIN TAXONOMY

NO ANSWER _____

PHASE			
CATEGORY	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS	(F=) Government Bidding Methods I= L=	G=	(A=) Late Payment/Nonpayment D= H= J= L= U=
GOVERNMENT DECISION	C= Q= V=		K= P= W=
CONTRACTOR DECISION	(M=) Low Profitability E= (N=) More Attractive Commercial Ventures R= X=		
PERVASIVE	(B=) Burdensome Paperwork (O=) Inflexible Procurement Policies (S=) Government Attitude T=		
Y and Z	Y= Z=		

TABLE 4.4C

REASON CITED BY MORE
THAN FIFTY PERCENT OF
RESPONDENTS CATEGORIZED
BY QUESTIONNAIRE VERSION

<u>REASON/Code</u>	<u>Ver #1</u>		<u>Ver #2</u>		<u>Ver #3</u>		<u>Ver #4</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
Burdensome Paperwork (B)	13	86.7	88	68.8	22	84.6	24	54.5
Government Bidding Methods (F)	8	53.3	74	57.8	14	53.8	25	56.8
Late Payment/Non- payment (A)	9	60.0	--	--	--	--	--	--
Low Profitability (M)	8	53.3	--	--	14	53.8	--	--
Inflexible Procure- ment Policies (D)	8	53.3	--	--	--	--	--	--

Because this group was clearly identified as consisting of OUT companies (as compared to the random selection of companies to receive the questionnaire in the first three groups) it would be significant to observe to what extent this group differed from the others in their IN versus OUT stance. Table 4.4D presents this comparison.

TABLE 4.4D

COMPARISON OF IN VERSUS OUT
RESPONSES BETWEEN VERSION
4 AND ALL OTHER QUESTIONNAIRE
VERSIONS

<u>Q9 Responses</u>	<u>Number of Respondents</u>	<u>% of Version Respondents</u>
IN (Version 4)	25	56.8%
IN (All Others)	97	57.4
OUT (Version 4)	19	43.2
OUT (All Others)	72	42.6

Table 4.4D demonstrates essentially no difference between Version four firms in their IN versus OUT position and this same position taken by the firms in the first three versions.

Table 2.3 indicates that a representative return was obtained from the Version 4 respondents posting a 38.7% questionnaire return rate versus 42.7%, 29.9% and 30.3% for the first three versions respectively.

In comparing the number of Version 4 firms answering Q9 versus the other three versions, Table 4.4E indicates that almost half of the Version 4 respondents saw fit to answer Question 9.

This was the second highest response rate and is almost identical to the response rate for all 427 firms returning the questionnaire.

TABLE 4.4E

COMPARISON OF QUESTION 9
RESPONSES BETWEEN VERSION
4 AND ALL OTHERS

<u>Version Number</u>	<u>Q9 Answered</u>	<u>% of Total in Version</u>
1	15	36.6
2	128	56.4
3	26	37.1
4	<u>44</u>	49.4
Total	213	49.8

Do the Version 4 respondents differ at all regarding prime contractor versus subcontractor status? Table 4.4F shows this comparison.

TABLE 4.4F

COMPARISON BETWEEN VERSION 4
RESPONDENTS AND ALL OTHERS
REGARDING PRIME CONTRACTOR
AND SUBCONTRACTOR STATUS
ANSWERING QUESTION 9

<u>Version #</u>	<u>Prime Contractor</u>		<u>Sub-Contractor</u>		<u>Both Prime and Sub</u>		<u>Totals</u>
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	
1	4	26.7	3	20.0	8	53.3	15
2	22	17.2	17	13.3	89	69.5	128
3	<u>4</u>	<u>15.4</u>	<u>6</u>	<u>23.1</u>	<u>16</u>	<u>61.5</u>	<u>26</u>
Total 1 through 3	30	17.8	26	15.4	113	66.8	169
4	16	36.4	3	6.8	25	56.8	44

Companies responding to Version 4 of the survey appear to differ significantly in their mix between prime contractor, subcontractor and both prime and subcontractor compared to respondents of the other three versions. Companies refusing Defense business are more likely to consist of more prime contractors than any other group and less likely to include subcontractors in their ranks. This implies that the pure subcontractor is not as likely to be included in a group of firms professing to avoid Defense business.

Responses to Q12 (bidding methods), Q13 (GAO) and Q14 (ASBCA)/Court appeals) for the 44 companies in this fourth version are:

Q12	Sealed Bid (Formal Advertising)	15
	Competitive Proposal (Negotiations)	10
	Sole Source	10
	Small Purchase/Purchase Order	8
	No Answer	11

Q13 Filed GAO Protest

YES 3 NO 35 No Answer 6

If yes, ruled in your favor

YES 1 NO 2

Q14 Filed Appeal

ASBCA	YES	<u>3</u>	NO	<u>35</u>	No Answer	<u>6</u>
Court	YES	<u>1</u>	NO	<u>34</u>	No Answer	<u>9</u>

If yes, ruled in your favor

ASBCA	YES	<u>1</u>	NO	<u>2</u>
Court	YES	<u>0</u>	NO	<u>1</u>

G. Composite of All Versions

Table 2.3 indicates that a total of 1,317 questionnaires were mailed and 427 returned for a response rate of 32.4%. Of the total responses, 213 answered Q9 while 214 did not. At one point in the receipt of questionnaires, the Q9 YES responses were almost 50% greater than the Q9 NO responses. Table 4.5 shows the distribution of all firms to which questionnaires were mailed and returned by each group solicited.

TABLE 4.5
QUESTIONNAIRES MAILED AND RETURNED
CATEGORIZED BY SOURCES

<u>SOURCE</u>	% of Total Questionnaires		<u>Response</u> <u>%</u>
	<u>Mailed</u>	<u>Mailed Returned</u>	
WSA	42	3.2 17	40.5
ASBCA	38	2.9 16	42.1
Claims Court	16	1.2 1	6.3
NMTBA	100	7.6 21	21.0
Construction Firms	35	2.7 4	11.4
NTMA	525	39.8 127	24.2
EIA	100	7.6 29	29.0
NRCC Long Beach	166	12.6 46	27.7
NRCC Washington, D.C.	65	4.9 11	16.9
Firms Refusing DOD Business	82	6.2 13	15.9
ASO	134	10.2 59	44.0
OLA	14	1.1 2	14.3
No Identification	--	-- 81	NA
	<u>1,317</u>	<u>100.0 427</u>	

Table 4.5A depicts the attitudes held by respondents as determined by the answers to Q8 and Q9. If Q9 was not answered, the respondent has and wishes to continue DOD business or wants to get into DOD contracting. These firms are recorded in the

column headed "Wants DOD Business." Several companies indicated in Q8 that they wanted DOD work but felt compelled to answer Q9 (intended only for companies not wanting DOD contracts) in order to make clear their dissatisfaction with the procurement process. These firms are recorded in the column headed "Wants DOD Business But Has Problems." The target group of this study is that category of firms which refuses DOD work, headed by the column "Does Not Want DOD Business." It was expected that those companies not desiring DOD contracts would be unwilling to identify themselves. Only 20 of 91 such firms (22%) actually declined to identify themselves. This compares favorably to 25 of 122 firms (20%) who want DOD business but also answered Q9 anyway and 36 of 214 firms (17%) who have no intention of declining DOD business.

TABLE 4.5A

TYPE OF RESPONSE CATEGORIZED
BY SOURCE

<u>SOURCE</u>	<u>TOTAL</u>	<u>WANTS DOD BUSINESS</u>	<u>WANTS DOD BUSINESS BUT HAS PROBLEMS</u>	<u>DOES NOT WANT DOD BUSINESS</u>
WSA	17	10	4	3
ASBCA	16	10	3	3
Claims Court	1	1	0	0
NMTBA	21	6	10	5
Constr Firms	4	1	0	3
NTMA	127	54	40	33
EIA	29	20	4	5
NRCC, L.B.	46	29	13	4
NRCC, Wash.	11	7	4	0
Firms Refusing	13	3	4	6
ASO	59	37	15	7
OLA	2	0	0	2
No Identifica- tion	81	36	25	20
		<u>214</u>	<u>122</u>	<u>91</u>

Regarding the prime contractor, subcontractor or both classification, the total for all four versions broken down by Q9 IN and Q9 OUT is as follows:

	<u>IN</u>	<u>%</u>	<u>OUT</u>	<u>%</u>	<u>TOTAL</u>	<u>%</u>
Prime Only	28	23.0	18	19.8	46	21.6
Sub Only	17	13.9	12	13.2	29	13.6
Both Prime and Sub	77	63.1	61	67.0	138	64.8
Total	<u>122</u>	<u>100</u>	<u>91</u>	<u>100</u>	<u>213</u>	<u>100</u>

Table 4.5B summarizes the reasons cited by all 213 firms responding affirmatively to Q9.

TABLE 4.5B

FREQUENCY OF REASONS
CITED BY 213 FIRMS
ANSWERING QUESTION 9
AFFIRMATIVELY

<u>Reason Code</u>	<u>Reason</u>	<u>Frequency</u>	<u>%</u>	<u>Cited*</u>	
				<u>1st</u>	<u>2nd</u>
B	Burdensome Paperwork	147	69.0	60	26
F	Government Bidding Methods	121	56.8	22	31
O	Inflexible Procurement Policies	81	38.0	7	13
N	More Attractive Commercial Ventures	73	34.3	7	9
M	Low Profitability	69	32.4	10	6
S	Government Attitude(s)	69	32.4	3	10
G	Delays in Making Awards	60	28.2	2	4
J	Inconsistent Quality Requirements	47	22.0	10	11
A	Standards too High	45	21.1	6	4
	Late Payment/Nonpayment				
Y	Other	38	17.8	9	5
E	Uncertainty/Instability of Govt Business	36	16.9	2	2
L	Audit Procedures	31	14.6	-	-
T	Unfair Application of Regs	30	14.1	4	3
I	Technical Data Rights Problems	27	12.6	7	3
H	Frequent Contract Changes	24	11.3	-	1
K	Acceptance/Rejection Problems with Product/Service	23	10.8	-	6
R	Inefficient Production Levels/Rates	20	9.2	1	4
V	Lost Business to Competitors	18	8.6	2	3
U	Prime Contractor/Higher Tier Subcontractor Methods	16	8.3	2	1
C	Work Set Aside for Small Business, (Respondent is large business)	13	6.1	6	-
X	Not Enough Defense Business	13	6.1	4	-

Table 4.5B (Cont.)

D	Govt Furnished Equipment Problems	9	4.2	1	-
Z	Other	8	3.8	1	2
P	Adverse Court/Board Ruling	8	3.8	-	-
<hr/>					
Q	Adverse General Accounting Office (GAO) Decision	5	2.3	1	-
W	Contract(s) Terminated	4	1.9	-	-

*Forty seven firms failed to prioritize the reasons.

In analyzing the 213 questionnaires from respondents who chose to answer Q9, over 2/3 of the responses included Reason B. (burdensome paperwork) as one of the principal contributors to their dissatisfaction with DOD business. Only one other item (Reason F - Government bidding methods) was cited by over 50% of the respondents. As the discussion concerning the answers to Question 10 will demonstrate, these are the two major areas where changes to policies and procedures can affect most change in the attitudes and problems with DOD business.

Perhaps one of the most telling comparisons would be the differences between reasons cited by companies which want Defense business but answered Q9 ("IN" companies) and those companies who don't want Defense business ("OUT" companies). Table 4.5B1 identifies those reasons cited by 30 percent or more of the participants in each category.

TABLE 4.5B1

FREQUENCY OF REASONS CITED BY MORE THAN 30% OF 122
 "IN" FIRMS AND 91 "OUT" FIRMS ANSWERING
 QUESTIONS 9 AFFIRMATIVELY

<u>Reason Code</u>	<u>Reason</u>	122 "IN" FIRMS		91 "OUT" FIRMS	
		<u>Freq</u>	<u>%</u>	<u>Freq</u>	<u>%</u>
B	Burdensome Paperwork	84	68.9	63	69.2
F	Government Bidding Methods	71	58.2	50	55.0
O	Inflexible Procurement Policies	51	41.8	30	33.0
G	Delays in Making Awards	40	32.8	(20)	(22.0)
M	Low Profitability	39	32.0	30	33.0
N	More Attractive Commercial Ventures	(36)	(29.5)	37	40.7
S	Government Attitude(s)	(36)	(29.5)	33	36.3

As depicted by Table 4.5B1, the top two reasons for both the IN and OUT firms are Burdensome Paperwork (B) and Government Bidding Methods (F), with almost 70% of the respondents in both categories of firms citing these problems. Next in importance for the OUT companies are More Attractive Commercial Ventures (N) with a 40.7% response rate and Government Attitudes (S) with a 36.3% response rate. Neither of these two reasons were cited, however, by more than 30% of the IN respondents. In addition to Reasons B and F, two other reasons were cited by more than 30% of both groups of firms: Inflexible Procurement Policies (O) with a 41.8% and 33.0% response rate from the IN and OUT firms respectively, and Low Profitability (M) with a 32.0% and 33.0% response rate from the IN and OUT firms respectively. One last item on Table 4.5B1, Delays in Making Awards (G), was cited by 32.8% of the IN firms. It did not make this list for OUT firms. The numbers in parenthesis are

the figures for the reasons which did not make the list. These are provided for comparison purposes and demonstrate, for example, that had one more "IN" company cited both Reasons N and S these two reasons would have qualified for this list. This analysis indicates essentially no difference in the types of reasons and the strength of dissatisfaction between IN and OUT companies in this survey.

The following 10 items received notice on fewer than 10% of the questionnaires as shown on Table 4.5C.

TABLE 4.5C

<u>Reason Code</u>	<u>Reason</u>	<u># of times identified %</u>	
R	Inefficient Production Levels/Rates	20	9.2
V	Lost Business to Competitors	18	8.6
U	Prime Contractor/Higher Tier Sub-contractor Methods	16	8.3
C	Work Set Aside For Small Business	13	6.1
X	Not Enough Defense Business	13	6.1
D	Govt Furnished Equipment Problems	9	4.2
P	Adverse Court or Board Ruling	8	3.8
Z	Other	8	3.8
Q	Adverse GAO Decision	5	2.3
W	Contract(s) Terminated	4	1.9

The results shown on Table 4.5C indicate that a number of issues thought to be prime reasons that "force" contractors and subcontractors from Government business have little or no impact on this process. For example, 18 respondents (8.6%) indicated that competition forced them out. With the greater emphasis on competition following implementation of the Competition in Contracting Act of 1984, it would be reasonable to expect that a

significant number of companies would be out of DOD business due to a keener and greater level of competition. It will be important to track this particular factor to determine if an increasing number of contractors/subcontractors cite this reason for non-involvement in DOD business. Other responses were expected to be few in number, such as Reason C (Set aside for small business). In this case, 92% of the respondents were small businesses and would not have marked this item. Of the 28 large businesses, however, 46.4% cited this as the reason they aren't in DOD business. Other low scoring reasons included inefficient production levels (Reason R), not enough defense business (Reason X), adverse court, board or GAO rulings (Reasons P and Q), Government furnished equipment problems (Reason D), terminated contracts (Reason W). Sixteen of the respondents (8.3%) cited prime contractor or higher tier subcontractor methods as one of their reasons. This question attempted to determine if the procurement methods used in obtaining subcontracts and the performance relationship between two firms were sufficient to drive companies away from DOD business. This survey indicates that these methods are not sufficiently onerous to compel subcontractors to avoid involvement in DOD work.

Reasons P and Q concerning Court, Board and GAO rulings must be compared to Question 13 and 14 of the survey which asked if protests to GAO or appeals to courts or boards had ever been filed and the outcome. Tables 4.6 through 4.8 indicate the extent to which respondents were involved with protests and

appeals and the general success they achieved in the recognition of their position.

TABLE 4.6

GENERAL ACCOUNTING OFFICE (GAO)
PROTESTS FILED AND SUCCESS
ACHIEVED

Number of Respondents Filing Protests with GAO	<u>Position Sustained</u>	<u>Position Denied</u>
42	16	33*

* In 7 cases, respondents had protests both sustained and denied.

TABLE 4.7

ARMED SERVICES BOARD OF CONTRACT APPEALS (ASBCA)
APPEALS FILED AND SUCCESS ACHIEVED

Number of Respondents Filing Appeal with ASBCA	<u>Appeals Sustained</u>	<u>Appeals Denied</u>
33	11	22

TABLE 4.8

COURT APPEALS FILED AND
SUCCESS ACHIEVED

<u>Number of Respondents Filing Appeals with Court System</u>	<u>Appeals Sustained</u>	<u>Appeals Denied</u>
12	6	7*

*In one case, respondent had appeals both sustained and denied.

Table 4.9 compares Reason Codes P and Q with the data presented in Tables 4.6, 4.7 and 4.8 concerning GAO protests and appeals to ASBCA and the Court system.

TABLE 4.9

GAO PROTESTS AND ASBCA/COURT APPEALS
COMPARED TO RESPONDENTS CITING ADVERSE
GAO/COURT RULINGS AS REASONS
FOR REFUSING DOD BUSINESS

<u>Number of Respondents Citing Adverse GAO/ Court Rulings</u>	<u>Number of Respondents Who Filed Protests</u>	<u>Number of Respondents Who Filed Appeals</u>
13	42	45

Five issues captured the attention of approximately 1/3 of the respondents. Table 4.10 identifies the issues, frequency of citations and the % of respondents citing the issue.

TABLE 4.10

<u>Reason Code</u>	<u>Reason</u>	<u>Frequency</u>	<u>% of times identified</u>
O	Inflexible Procurement Policies	81	38.0
N	More Attractive Commercial Ventures	73	34.3
M	Low Profitability	69	32.4
S	Government Attitude(s)	69	32.4
G	Delays in Making Awards	60	28.2

TABLE 4.11

RESPONSES FROM PRIME CONTRACTORS
SUBCONTRACTORS AND FIRMS HOLDING
BOTH PRIME AND SUBCONTRACTS

	<u>NUMBER RESPONSES</u>	<u>%</u>
PRIME	88	20.6
SUBCONTRACTOR	71	16.6
BOTH	<u>268</u>	<u>62.8</u>
TOTAL	427	100

The responses from TABLE 4.11 were further subcategorized between those companies which answered Question #9 in the affirmative (NOT NOW IN DOD Business or WILL GET OUT) and those firms which answered Question #9 in the negative. Table 4.11A demonstrates that essentially the same percentages of primes, and a combination of both responded either affirmatively or negatively to Question #9, but a slightly smaller percentage of subcontractors answered the question with a "YES."

TABLE 4.11A

RESPONSES FROM PRIME CONTRACTORS,
SUBCONTRACTORS AND BOTH WHO
ANSWERED QUESTION #9 YES OR NO

	Question #9 YES		Question #9 NO	
	<u>No. of Responses</u>	<u>%</u>	<u>No. of Responses</u>	<u>%</u>
PRIME	46	21.6	42	19.6
SUBCONTRACTOR	29	13.6	42	19.6
BOTH	<u>138</u>	<u>64.8</u>	<u>130</u>	<u>60.7</u>
TOTAL	213	100	214	100*

*Does not add due to rounding.

A breakdown between the four versions of the questionnaire by response to Question #9 and by prime, sub and both is reflected in Table 4.11B. Here it can be seen that primes as a source of responses ranged from a low of 13.1% (Q9 NO, Version #2) to a high of 36.4% (Q9 YES, Version #4). Subcontractors ranged from a low of 6.8% (Q9, Version #4) to a high of 29.3% (Q9 NO, Version #2). Because the combination of primes and subs stayed closely within the range of 53.3% to 69.5%, an increase in primes only in any category resulted in a decrease of subs only and vice versa. Perhaps the most significant items that can be discerned from Table 4.11B are that:

- (1) pure subcontractors generally constitute the smallest group of respondents,
- (2) firms which consider themselves both prime and subcontractors constitute the majority of the respondents (exceed 50% in all categories),

- (3) there is essentially no difference in the source of response (i.e., prime, sub, both) between those firms not interested in Defense business (9Q YES) versus those firms interested in Defense business (9Q NO),
- (4) the largest percentage difference between primes and subs occurs for Q9 YES Version #4. This is important because Version #4 was that questionnaire sent to only those firms which were identified as specifically refusing Defense business

TABLE 4.11B

RESPONSES FROM PRIMES, SUBS AND BOTH SUB-
DIVIDED BETWEEN QUESTIONNAIRE VERSIONS AND
BETWEEN QUESTION #9 ANSWERED YES OR NO

	#1		#2		<u>Q9Y</u> #3		#4		Total		#1		#2		<u>Q9N</u> #3		#4		Total	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
PRIME	4	26.7	22	17.2	4	15.4	16	36.4	46	21.6	7	26.9	13	13.1	11	25.0	11	24.4	42	19.6
SUB	3	20.0	17	13.3	6	23.1	3	6.8	29	13.6	2	7.7	29	29.3	5	11.4	6	13.3	42	19.6
BOTH	<u>8</u>	<u>53.3</u>	<u>89</u>	<u>69.5</u>	<u>16</u>	<u>61.5</u>	<u>25</u>	<u>56.8</u>	<u>138</u>	<u>64.8</u>	<u>17</u>	<u>65.4</u>	<u>57</u>	<u>57.6</u>	<u>28</u>	<u>63.6</u>	<u>28</u>	<u>62.2</u>	<u>130</u>	<u>60.7</u>
TOTAL	15	100	128	100	26	100	44	100	213	100	26	100	99	100	44	100	45	100	214	100

Table 4.11C focuses on a comparison between responses to Version #4 (firms specifically identified as refusing Defense business) and responses from all firms.

TABLE 4.11C

COMPARISON BETWEEN RESPONSES TO VERSION #4
OF QUESTIONNAIRE AND ALL RESPONSES

	Q9 YES				Q9 NO				TOTAL			
	Version 4		All Responses		Version 4		All Responses		Version 4		All Responses	
	#	%	#	%	#	%	#	%	#	%	#	%
PRIME	16	36.4	46	21.6	11	24.4	42	19.6	27	30.3	88	20.6
SUB	3	6.8	29	13.6	6	13.3	42	19.6	9	10.1	71	16.6
BOTH	<u>25</u>	<u>56.8</u>	<u>138</u>	<u>64.8</u>	<u>28</u>	<u>62.2</u>	<u>130</u>	<u>60.7</u>	<u>53</u>	<u>59.6</u>	<u>268</u>	<u>62.8</u>
TOTAL	44	100	213	100	45	100	214	100	89	100	427	100

As would be expected, the percent of "pure" prime contractors for Version #4 is higher (30.3% vs. 20.6%) than the total population. This is because many more DOD buying organizations (18) identified firms unwilling to be involved in Defense business than did large Defense contractors (7). (See Table 1A). Those firms claiming to be both primes and subs did not differ significantly between Version #4 and the total population (59.6% vs. 62.8%).

In analyzing respondents' experience concerning the method of contracting under which they received prime contracts, Table 4.12 indicates that the greatest experience is with the sealed bid method. Question 12 regarding contracting methods permitted

multiple answers, thus the entries in Table 4.12 do not reflect numbers of respondents.

Table 4.12

RESPONDENTS' EXPERIENCE
WITH CONTRACTING METHODS

<u>Method</u>	<u>Number of Times Cited</u>	<u>Percentage</u>
Sealed Bid (Formal Advertising)	63	42.6
Competitive Proposal (Negotiations)	43	29.1
Sole Source	16	10.8
Small Purchase/Purchase Order	26	17.6

Chapter V

FINDINGS AND CONCLUSIONS

A. Introduction

Several significant findings and conclusions can be drawn from this research. Some of these have implications for the Defense industrial base while others are important to any efforts to adjust procurement policy or to simplify or streamline the procurement process.

The principal research question of this study was: To what extent do companies refuse to do business with the Department of Defense? Corollary to this principal research question is the issue of the reasons such companies point to for their position of refusal.

B. Findings

Preliminary steps in beginning this study led the researcher to believe that companies which refuse DOD business would not wish to identify themselves for a variety of reasons. This prompted use of the survey questionnaire device, with a provision of anonymity, in order to obtain candid responses. Upon completion of the study, however, it was found that over 80% of the respondents were willing to identify themselves and to be interviewed either by phone or in person. The contention that the majority of companies involved in this study would not want their identity revealed was proven incorrect.

FINDING #1. Over 80% of the companies participating in this research identified themselves and were willing to be interviewed concerning their responses.

The significance of this finding is that firms are generally willing to be associated publicly with their opinions and are not generally concerned with the possible consequences of this action.

From the 427 respondents, it was determined that the principal activity of the sample population centered around (a) the manufacturing of proprietary products and (b) job shop operations as a manufacturer to customer specifications. Over 77% of the respondents were categorized into these two groupings as contrasted with the remaining 23% which were engineering/research firms, wholesale distributors, retailers or others.

FINDING #2. Over 77% of the companies participating in this research are involved in the manufacture of proprietary products or job shop manufacturing to customer specifications.

One of the survey questions asked respondents to identify the percentage of their sales by customer location including (a) local (within 50 miles), (b) regional, (c) national, and (d) foreign. Although none of the locations received a majority of the sales, foreign sales accounted for less than 5%. Both local customers and regional customers combined for a total of 61.5% of the sales of these firms.

FINDING #3. Customer location by percentage of sales for responding firms included local (37.7%), regional (23.8%), national (33.3%) and foreign (4.6%), which implies very little competitive participation in foreign markets.

This finding is important from the standpoint of focusing procurement policies and procedures on the principal customer base of these firms. Foreign customers are not a principal concern of the companies involved in this study.

In determining the size of the sales volume of firms in this research, one of the questions focused on the approximate annual sales figures for each company. Over 35% of the respondents had annual sales between \$1 million and \$5 million while a majority of the respondents (60.9%) had annual sales of \$5 million or less. Slightly under 5% of the firms had over \$100 million in annual sales.

FINDING #4. The majority of the firms (60.9%) in this study had annual sales volumes of \$5 million or less.

The major thrust of this research was to determine the extent to which companies refuse Defense work and the reasons for this position. It was found that slightly over 20% of the respondents did not want Defense business, however, almost 30% of the respondents were dissatisfied enough with some aspect of the procurement process to note their reasons even though they were not refusing DOD business.

FINDING #5. Over 20% of the respondents in this study refused to do Defense business.

This finding is significant in that it establishes a rather large group of companies (which may or may not be essential to the industrial base) which have clearly voiced their desire not to be Defense contractors and subcontractors. Perhaps more important is the trend that may be occurring. Is this group increasing in numbers or can we expect about 20% of the population to be among their numbers? The study did not focus on data which could be used to analyze this aspect. Regarding the firms in this study, the prime focus involved reasons for refusing DOD business.

Respondents were asked to identify one of four methods through which they received the majority of their Government prime contracts. The responses included (a) sealed bid (42.6%), (b) competitive proposal (29.1%), (c) sole source (10.8%), small purchase/purchase order (17.6%).

FINDING #6. Over 42% of the respondents received prime contracts through the sealed bid method while competitive proposals accounted for almost 30% of the contract awards. The significance of this finding is that the greatest number of complaints about the procurement system will involve the sealed bid methodology and therefore the greatest amount of research and corrective effort should be focused on this method.

FINDING #7. The majority (over 92%) of the respondents were small businesses.

This finding is significant in that the population from which the reasons set forth in Conclusions #1 and #2 are surfaced is principally the small business community. Any actions based on

the reasons cited for refusing Defense work should be made with the full knowledge that these findings and conclusions may not represent the large business community.

FINDING #8. The firms participating in this study identified themselves as follows: prime contractor only (21.6%), subcontractor only (13.6%), both prime contractor and subcontractor (64.8%).

FINDING #9. Approximately 10% of the respondents (42) in this study have filed protests with the General Accounting Office and 38% of those (16) had their protest sustained.

FINDING #10. Approximately 10% of the respondents (43) in this study have filed appeals through the Armed Services Board of Contract Appeals (ASBCA) or the U.S. Claims Court and 39% of those (17) had their appeal sustained.

C. Conclusions

Conclusion #1. The principal reasons companies refuse Defense business relate to (1) burdensome paperwork, (2) Government bidding methods, (3) inflexible procurement policies and (4) more attractive commercial ventures.

Over one-third of the respondents cited these four reasons for not wanting DOD work. Burdensome paperwork received almost 70% recognition from the study participants and was ranked as either first or second in problem priority by 86 of the 147 firms citing this issue. Although burdensome paperwork examples spanned throughout the procurement process, the majority of examples identified pre-award problems as opposed to award or post-award

problems. Government bidding methods, a pre-award activity, was cited by over 55% of the respondents while inflexible procurement policies and more attractive commercial ventures each received 38% and 34% respectively.

Conclusion #2. The reasons least responsible for dissatisfaction with DOD business are (1) inefficient production levels/rates, (2) unsuccessful in the competition, (3) methods used by prime contractors/higher tier subcontractors, (4) small business set-asides, (5) insufficient Defense business, (6) Government furnished equipment problems, (7) adverse court, board or General Accounting Office decisions/rulings and (8) terminated contracts. Each of these reasons were cited by less than 10% of the respondents. As indicated in the analysis section of this report, each of these reasons has surfaced at one time or another as a major concern in Defense procurement. Many of these problems and issues have been addressed by recent legislation which has attempted to correct the underlying causes of the problem. The significance of this conclusion is that initiatives designed to reduce or eliminate these problem areas are working (at least for the industries/companies in this study) and major reform efforts should be concentrated in the areas identified in Conclusion #1.

Conclusion #3. The pre-award phase of the procurement process was the principal focus of respondent complaints.

Although several of the reasons cited by companies in this study involved the post-award phase or crossed the boundaries of all

three phases, the reasons and examples generally attacked the front end of the acquisition process. The importance of this conclusion is that efforts to improve the procurement process should involve, to the greatest extent possible, reform in the pre-award phase.

Conclusion #4. DOD Buying offices have generally not encountered prime contractors who are unwilling to bid on Government contracts and prime contractors have generally not encountered subcontractors who are unwilling to bid on Defense related business.

Of the 133 responses to the letter of inquiry requesting names of companies not wanting DOD business, only seven Defense primes and 18 DOD buying offices could provide candidate firms for the study. The remaining 108 organizations were unaware of any such firms.

Conclusion #5. Companies specifically identified as refusing DOD business are no more likely to take this position than any random selection of potential Government contractors.

Of the "target firms" identified for this study, approximately 20% truly had taken the "refusal" position. This compares with a 21.5% refusal rate for those firms randomly selected to participate in the study.

Conclusion #6. Companies refusing DOD business have essentially no difference in their reasons than companies who are in Defense business but have difficulties with the system.

As indicated in Section IV G of this study, particularly

Table 4.5B1, the leading causes of problems for firms "OUT" of DOD business are not significantly different from those for the "IN" firms. The implications of this conclusion would include the proposition that perhaps a fine line separates the "OUT" companies from the "IN" companies and the latter may join the former with only a very little more dissatisfaction. In contrast, perhaps the former could be encouraged to rejoin the "IN" firms with only a slight improvement in the procurement process.

Conclusion #7. Regarding prime contractors, subcontractors and a combination of both, there is essentially no difference in the sources of responses between those firms who are interested in Defense business (IN firms) versus those who are not (OUT firms). As discussed in Section IV G, prime contractors IN and OUT were approximately 23% and 20% respectively, subcontractors IN and OUT were approximately 14% and 13% respectively and firms who were both primes and subcontractors were approximately 63% IN versus 67% OUT. These percentages indicate comparability between wanting and not wanting DOD business in all three categories.

Conclusion #8. Reasons for subcontractor dissatisfaction with the procurement process is essentially no different than that at the prime contractor level.

Prime contractors and subcontractors responded with the same reasons for their positions at the same level of intensity.

Conclusion #9. There is a significant difference between the number of target firms who want Defense business as compared to the number of target firms who refuse Defense business.

Of the 74 target firms responding to the questionnaire, 66% wanted DOD business while only 34% considered themselves to be OUT companies. This is significant because it indicates that firms perceived to be refusing Defense business by DOD buying offices and prime contractors have generally not taken this position.



DEPARTMENT OF THE NAVY

NAVAL POSTGRADUATE SCHOOL
MONTEREY, CA 93943-5100

IN REPLY REFER TO:
NC4(54Lt)

Administrative Sciences Department

Dear

As a faculty member at the Naval Postgraduate School, I am conducting a research project concerning those various companies which do not now desire to do business with the Department of Defense (DOD). This could be as a prime contractor or as a subcontractor at any tier. The focus of my work is to identify the principal reasons such firms refuse DOD awards and the implications of these reasons for DOD policy and the industrial base.

As a major defense contractor, you hardly fit into the category of refusing DOD business. However, there are perhaps a number of suppliers/former subcontractors who, for various reasons, have indicated to you that they are unwilling to begin work as a DOD subcontractor or had such business at one time but reject it now.

I have developed a questionnaire to which I would like these firms to respond. Could you be of assistance by identifying just five companies which do not want DOD business? I am interested in companies which have taken this position since 1 January 1984. Your firm will remain entirely anonymous as a source of this information. The enclosed sheet provides space for the five firms. If you have a contact name and phone number within the firm, this would be most helpful. You need not identify yourself. However, if you desire further discussion concerning this effort, please provide your name, address and phone number. A franked envelope has been enclosed for your use.

Thank you for your assistance.

David V. Lamm
Adjunct Professor

Encl.

(1) Name of firm _____
Address _____
Contact name/phone # _____

(2) Name of firm _____
Address _____
Contact name/phone # _____

(3) Name of firm _____
Address _____
Contact name/phone # _____

(4) Name of firm _____
Address _____
Contact name/phone # _____

(5) Name of firm _____
Address _____
Contact name/phone # _____

(Optional)

Your Firm _____
Address _____

Name/Phone # _____

☐ I AM UNAWARE OF ANY COMPANY, PRIME CONTRACTOR OR SUB-
CONTRACTOR, WHICH HAS REFUSED DOD BUSINESS.



DEPARTMENT OF THE NAVY

NAVAL POSTGRADUATE SCHOOL
MONTEREY, CA 93943-5100

IN REPLY REFER TO:

NC4(54Lt)

Administrative Sciences Department

Dear

I am conducting a research project concerning those various companies which do not now desire to do business with the Department of Defense (DOD). This could be as a prime contractor or as a subcontractor at any tier. The focus of my work is to identify the principal reasons such firms refuse DOD awards and the implications of these reasons for DOD policy and the industrial base.

As a major buying organization, you may have encountered a former prime contractor who does not now wish to pursue DOD business or you may be aware of suppliers/vendors who have vocally refused to enter the defense market.

I have developed a questionnaire to which I would like these firms to respond. Could you be of assistance by identifying just five companies which do not want DOD business? I am interested in companies which have taken this position since January 1, 1984. Your organization will remain entirely anonymous as a source of this information. The enclosed sheet provides space for the five firms. If you have a contact name and phone number within the firm, this would be most helpful. You need not identify yourself. However, if you desire further discussion concerning this effort, please provide your name, address and phone number. A franked envelope has been enclosed for your use.

Thank you for your assistance.

David V. Lamm
Adjunct Professor

Encl.

(1) Name of firm _____
Address _____
Contact name/phone # _____

(2) Name of firm _____
Address _____
Contact name/phone # _____

(3) Name of firm _____
Address _____
Contact name/phone # _____

(4) Name of firm _____
Address _____
Contact name/phone # _____

(5) Name of firm _____
Address _____
Contact name/phone # _____

(Optional)

Your Organization _____
Address _____

Name/Phone # _____

☐ I AM UNAWARE OF ANY COMPANY, PRIME CONTRACTOR OR SUB-
CONTRACTOR, WHICH HAS REFUSED DOD BUSINESS.

Appendix C

QUESTIONNAIRE

Naval Postgraduate School
Department of Administrative Sciences
Code 54Lt
Monterey, CA 93943

SURVEY OF INDUSTRY OPINION OF DEFENSE PROCUREMENT

This survey is intended to solicit your ideas and concerns about Defense procurement policies and procedures. It is focused toward firms which do not desire to participate in Government Defense business. These firms may be current Defense contractors, may have received Defense awards in the past but no longer bid on such business, or may not desire to bid even though they have never received Defense awards. Please take a few moments to give us your honest appraisal/understanding of Defense business.

1. A. What is your primary product or service? _____
B. What is your primary Standard Industrial Classification (SIC) Code? _____
2. Please indicate the approximate number of your employees _____
3. Is your company affiliated through ownership with other companies?
A. YES () B. NO ()

If yes, please check the total employment of your company and your affiliated companies.

- | | | |
|--------------|---------------|-----------------------|
| A. 0-19 () | D. 100-249() | G. 1000-4999 () |
| B. 20-49 () | E. 250-499() | H. 5000-9999 () |
| C. 50-99 () | F. 500-999() | I. 10000 and over () |

4. About what percentage of your total sales are made as a:

	<u>Approximate %</u>
A. Manufacturer of proprietary products	_____ %
B. Contract manufacturer for others (job shop)	_____ %
C. Contract engineering and research firm	_____ %
D. Wholesale distributor	_____ %
E. Retailer	_____ %
F. Other	_____ %

Total: 100%

5. About what percentage of your total sales go to customers in each of the following areas?

	Approximate %
A. Local - (Within 50 miles or so)	_____ %
B. Regional - (Outside local area but within your region, such as Northeast, Southwest)	_____ %
C. National - (Outside your region, but within U.S.)	_____ %
D. Foreign - (Outside U.S.)	_____ %
Total	100%

6. What is the approximate current annual sales volume of your company? (Check one)

- | | |
|----------------------------------|-------------------------------------|
| A. Under - \$100,000 () | E. \$5,000,001 - \$10,000,000 () |
| B. \$100,000 - \$500,000 () | F. \$10,000,001 - \$50,000,000 () |
| C. \$500,001 - \$1,000,000 () | G. \$50,000,001 - \$100,000,000 () |
| D. \$1,000,001 - \$5,000,000 () | H. Over \$100,000,000 () |

(Definition: In this study, "Defense" procurement, programs, sales and business all refer to sales of materials or services that ultimately are used in weapons or weapon support end use items. Such sales may be either to the Government or to private commercial companies that are prime contractors or subcontractors.)

7. What is your experience in Defense business?
- | | | |
|--|-----------------------------|----------------------------|
| | as a
Prime
Contractor | as a
Sub-
Contractor |
|--|-----------------------------|----------------------------|

- | | | |
|--|-----|-----|
| A. We have NEVER TRIED making sales to the defense program | () | () |
| B. We have TRIED but NEVER MADE such sales | () | () |
| C. We have made such sales in the past but NOT NOW | () | () |
| D. We ARE NOW selling to the defense program | () | () |

8. What is your attitude toward obtaining Defense business?
- | | | |
|--|-----------------------------|----------------------------|
| | as a
Prime
Contractor | as a
Sub-
Contractor |
|--|-----------------------------|----------------------------|

- | | | |
|---|-----|-----|
| A. We do not have and do NOT INTEND to seek Defense business | () | () |
| B. We have Defense business now but intend to GET OUT | () | () |
| C. We have Defense business now and intend to STAY | () | () |
| D. We do not have Defense business but intend to seek such business | () | () |

9. What are the primary reasons you are NOT NOW involved in Defense business or intend to GET OUT. (Please rank in order of importance if more than one item applies, for example, 1, 2, 3, etc.). (skip this question if you checked either answer 8c or 8d.)

- A. Late payment or nonpayment _____
- B. Burdensome Paperwork _____
- C. Work is set aside for small business; I am large business _____
- D. Government furnished equipment problems _____
- E. Uncertainty/Instability of Government business base _____
- F. Government bidding methods _____
- G. Delays in making awards _____
- H. Frequent contract changes _____
- I. Technical Data rights problems _____
- J. Inconsistent quality requirements/standards too high _____
- K. Acceptance/rejection problems with my product/service _____
- L. Audit procedures _____
- M. Low profitability _____
- N. More attractive commercial ventures _____
- O. Inflexible procurement policies _____
- P. Adverse court or board ruling _____
- Q. Adverse General Accounting Office (GAO) decision _____
- R. Inefficient production levels/rates _____
- S. Government attitude(s) _____
- T. Unfair application of the regulations _____
- U. Prime contractor/higher tier subcontractor methods _____
- V. Lost the business to my competitors _____ (Domestic competi-
tion _____ Foreign competition _____)

W. Contract(s) terminated _____

X. Not enough Defense business _____

Y. Other _____

Z. Other _____

10. Please explain, perhaps with an example, the specifics of the items you ranked as 1 and 2 in question 9.

1. _____

2. _____

11. If you don't currently have Defense contracts, how long ago were you involved in Defense business?

	<u>As a</u> <u>prime contractor</u>	<u>As a</u> <u>subcontractor</u>
A. 0-6 mos ago	()	()
B. 7-12 mos ago	()	()
C. 1-5 years ago	()	()
D. greater than 5 years ago	()	()
E. Never had Defense Business	()	()

12. If you have been or are a prime contractor, by which method did you receive the majority of your awards?

- A. Sealed Bid (Formal Advertising) ()
- B. Competitive Proposal (Negotiations) ()
- C. Sole Source ()
- D. Small purchase/Purchase order ()

13. Have you ever filed a protest with the General Accounting Office (GAO)?

- A. Yes ()
- B. No ()

If yes, did the GAO rule in your favor?

- C. Yes ()
- D. No ()

14. Have you ever filed an appeal concerning a contract dispute with the Armed Services Board of Contract Appeals (ASBCA) or with an appropriate Court?

- | | | |
|-------|------------|-----------|
| ASBCA | A. Yes () | B. No () |
| Court | C. Yes () | D. No () |

If yes, was the ruling in your favor?

- | | | |
|-------|------------|-----------|
| ASBCA | E. Yes () | F. No () |
| Court | G. Yes () | H. No () |

15. If you are not currently involved in Defense programs, under what condition(s) would you consider participating in Defense business?

16. I am willing to discuss my views by:

- | | | |
|-----------------------|---------|--------|
| A. Phone | Yes () | No () |
| B. Personal Interview | Yes () | No () |

17. (Optional) (If you answered "yes" to question 16, please provide at least name and phone number). THANK YOU.

Name _____

Company _____

Address _____

Phone () _____

Appendix D

TYPES OF COMPANIES TO WHOM
QUESTIONNAIRES WERE MAILED

Version Number 1

96 Questionnaires

1. Contractors who had appealed Government decisions to the Court system.
2. Contractors who had appealed Government decisions to the Armed Services Board of Contract Appeals (ASBCA).
3. Members of the Western Shipbuilders Association.

Version Number 2

760 Questionnaires

4. Members of the National Machine Tool Builders Association (NMTBA).
5. Construction Contractors
6. Members of the National Tooling and Machining Association (NTMA).
7. Members of the Electronics Industry Association (EIA)

Version Number 3

231 Questionnaires

8. Suppliers to the Navy Regional Contracting Center (NRCC) Long Beach.
9. Suppliers to the Navy Regional Contracting Center (NRCC) Washington.

Version Number 4

230 Questionnaires

10. Firms identified by Defense Companies and DOD buying offices to receive the questionnaire.
11. Companies which have indicated to the Aviation Supply Office (ASO) that they wish to be taken off the bidder's list.
12. Small business firms which attended a small business fair and did not desire to do Government business.

Appendix E

GLOSSARY OF
ABBREVIATIONS AND ACRONYMS

A&E	Architect and Engineer
Acctg	Accounting
ADP	Automated Data Processing
ADPA	American Defense Preparedness Association
AIA	Aerospace Industries of America
AMC	Army Materiel Command
ASBCA	Armed Services Board of Contract Appeals
ASO	Aviation Supply Office
CBD	Commerce Business Daily
Court	U.S. Claims Court
DCAA	Defense Contract Audit Agency
DCAS	Defense Contract Administration Services
DOD	Department of Defense
ECP	Engineering Change Proposal
EIA	Electronic Industries Association
G	Government
GAO	General Accounting Office
GFE	Government Furnished Equipment
Govt	Government
IFB	Invitation for Bids
K	Contract
KTR	Contractor
MIPR	Military Interdepartmental Purchase Request
MVMA	Motor Vehicle Management Association
NFCS	Navy Field Contracting System
NMTBA	National Machine Tool Builders' Association
NRCC	Navy Regional Contracting Center
NTMA	National Tooling and Machining Association
OLA	Navy Office of Legislative Affairs
pkg	package
PR	Purchase Request
Prime	Prime Contractor
QAR	Quality Assurance Representative
RFP	Request for Proposals
RFQ	Request for Quotations
Rqmt(s)	Requirement(s)
SIC	Standard Industrial Classification Code
Stds	Standards
Sub	Subcontractor
WSA	Western Shipbuilders Association

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